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ANNUAL REPORT TO PARLIAMENT

President
of the Treasury Board

Président
du Conseil du Trésor

Crown Corporations and Other Corporate Interests of Canada

1997

Canada

Government Publications

ANNUAL REPORT TO PARLIAMENT

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Canada

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CROWN CORPORATIONS AND OTHER CORPORATE INTERESTS OF CANADA

It is with pleasure that I table the *1997 Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada*. This annual report is the principal means by which the government informs Parliament and Canadians about its corporate holdings. These range from directly held parent Crown corporations to organizations in which the government has only a partial shareholding or right to appoint a member to the board of directors.

For the first time, this document reports on the performance of Crown corporations according to the ministerial portfolios to which they belong. This reflects the fact that, although Crown corporations vary greatly in size and function, they are all accountable to Parliament through a minister.

Program Review has introduced a new dynamic that has resulted in Crown corporations becoming less dependent on the financial support of the government. The Government of Canada is continually examining options for delivering its programs more effectively while reducing the burden on taxpayers. Recent developments in this area include the transfer of Transport Canada's air navigation system to NAV CANADA and the continued transfer of federal airports to Canadian Airport Authorities. The research community is sharing the governance of a new corporation, the Canada Foundation for Innovation. In addition, proposed legislation affecting The Canadian Wheat Board would result in the governance of the Wheat Board being shared with its stakeholders.

It is clear that effective corporate governance is essential to the functioning of all corporations in which the government has an interest. With this in mind, the Treasury Board Secretariat published guidelines on corporate governance last year.

I am pleased to note that many Crown corporations have responded to these guidelines and have reported on their corporate governance activities.

Marcel Massé
President of the Treasury Board

December 1997

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INTRODUCTION

The President of the Treasury Board's ***1997 Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada*** provides a consolidated report on the businesses and activities of all parent Crown corporations and the other corporate interests of the Government of Canada. This report comprises the following sections:

- The **Overview of the Portfolio** describes significant developments, major events and trends in Crown corporations. As well, it provides a review on a ministerial portfolio basis. Two summary tables present the consolidated financial position, operating results, financing and employment information for Crown corporations by ministerial portfolio.
- **Corporate Abstracts** summarizes each parent Crown corporation's mandate, products and services, corporate highlights, performance, objectives for the next planning period and financial results.
- **Corporate Holdings** presents a listing of parent Crown corporations and their corporate holdings.
- **Other Corporate Interests** is a compilation of the other corporate interests of Canada, and provides supplementary information about them.
- The **Consolidated List of Crown Corporations and Other Corporate Interests of Canada** is an alphabetical listing of the organizations included in this report and is a new addition this year.

- **Tabling of Reports in Parliament** presents a record of annual reports, and summaries of the corporate plans and budgets tabled in Parliament by the responsible ministers.
- The **Annex** contains the audited financial statements for each parent Crown corporation.

This ***1997 Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada*** is prepared under the direction of the President of the Treasury Board by the Alternative Service Delivery and Crown Corporation Policy Sector. It responds to the requirements of the *Financial Administration Act* sections 151 and 152 that the following documents be tabled in Parliament annually:

- a consolidated report on the businesses and activities of all parent Crown corporations, including information on all Crown corporations and other corporate interests of Canada; and
- a report indicating when annual reports and summaries of the corporate plans and budgets were to be laid before each House (for the 12-month period ending on July 31), and when they were actually laid before that House.

Overview of the Portfolio

Background and Context

With the creation of the Canadian Race Relations Foundation, the Crown corporation portfolio increased in size in 1996/97 from 46 to 47 parent Crown corporations. Each Crown corporation has its own specific public policy purpose. Accordingly, corporations vary widely in size and differ in their demands on the government for financial support.

Each Crown corporation is a legally distinct entity wholly owned by the Crown and managed by a board of directors. The enabling legislation for each Crown corporation, whether by a special Act of Parliament or by articles of incorporation under the *Canada Business Corporations Act*, sets out the Crown corporation's mandate, powers and objectives.

Corporate Environment

Getting Government Right

Crown corporations have long been used as an alternative model to the departmental delivery of federal programs and services. The President of the Treasury Board's *1996 Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada* noted that the government had begun to move away from traditional models of service delivery to allow more cost effective and client-oriented management practices to flourish. In February 1997, the President of the Treasury Board reported on the initiatives that were under way to modernize the delivery of programs and services to Canadians in *Getting Government Right: Governing for Canadians*. The government is continuing the restructuring work begun as a result of Program Review to create a modern public sector that can better respond to the challenges that it faces.

This examination of the corporate environment outlines the federal government's progress in the area of alternative service delivery. Also discussed are Crown corporations' mandate reviews, and other issues of general relevance across the government's portfolio of Crown corporations.

I. Alternative Service Delivery

The Treasury Board's *Framework for Alternative Program Delivery* outlines several delivery options that departments may use to improve service and modernize operations. The Framework, however, is not intended to limit the range of alternatives considered by government entities in restructuring programs and activities. Although many current service delivery models will continue to be useful in the future, innovative organizational and partnering arrangements, and appropriate enabling legislation, may be necessary.

During the past year, the government created several new organizations to carry out its programs. It also commercialized or privatized some activities as well as commencing the process for others. These are noted below.

Service Agencies

Service agencies are expected to be established by separate constituent legislation to reflect their unique features and requirements. Typically they would be headed by a chief executive officer reporting to a minister; have flexible administrative, financial and human resources authorities consistent with the organization's mandate; be performance and results oriented; and have tailored reporting and accountability requirements. The 1996 Budget announced the creation of three new service agencies. The Canadian Food Inspection Agency was established on April 1, 1997 as a departmental corporation. Work is continuing to establish the Parks Canada Agency and the Canada Customs and Revenue Agency.

Special Operating Agencies

Special Operating Agencies (SOAs) are service delivery units within government departments. They are allowed more direct authority and responsibility for obtaining results by increasing their management flexibilities and relaxing administrative rules and controls. In return, SOAs commit to agreed-upon levels of performance. SOA frameworks are approved by the Treasury Board and are implemented without requiring legislation. In 1996/97, the Treasury Board approved four new SOAs: Measurement Canada; the Occupational and Environmental Health Services; Technology Partnerships Canada; and the Superintendent of Bankruptcy. This brings the total number of SOAs to 19, with some 6,000 employees.

Foundations and Boards

The 1997 Budget announced the creation of the Canada Foundation for Innovation and an $800-million technology endowment fund. The purpose of the fund is to provide financial support for the modernization of research infrastructure at Canadian universities and colleges, in research hospitals, and in associated not-for-profit research institutions and organizations in the areas of health, environment, science and engineering. The Foundation is an independent corporation at arm's length from the government. The government appointed the Chairperson of the board of directors and, on November 18, 1997, the Chairperson and the Minister of Industry announced the appointment of the 14 remaining board members.

In September 1997, the Minister of Finance tabled Bill C-2 to create the Canada Pension Plan Investment Board, which was announced in the 1997 Budget. The Investment Board would manage and invest money transferred to it from the Canada Pension Plan Account. It would be managed by a board of directors consisting of 12 directors appointed by the Governor in Council on the recommendation of the Minister of Finance after consultation with the provinces.

Partnering

Increasingly, the federal government is looking to partner with other sectors — public, private and not-for-profit — to build on their collective strengths and capabilities in meeting shared objectives.

Recent examples of partnering arrangements include 'Team Canada' missions abroad to promote trade through co-operation between the federal and provincial governments and the private sector. The Canada Infrastructure Works Program combined the efforts of three levels of government and delivered benefits to communities across Canada. The 1997 completion of the Confederation Bridge linking Prince Edward Island and New Brunswick was made possible by an innovative financing arrangement, federal-provincial co-operation and private-sector expertise.

Commercialization and Shared Governance

Previous Budgets announced the government's intention to commercialize public entities and activities where they could be shown to improve services and reduce costs while continuing to protect the public interest. Examples of progress in this area during the past year are noted below.

On October 31, 1996, the operations of Canada's air navigation system were transferred to NAV CANADA — a private, not-for-profit corporation created to purchase the system for $1.5 billion and operate it. The air navigation system provides civil air traffic control, flight information services such as weather briefings, and a network of navigational aids. NAV CANADA operates independently of the government except for certain clearly defined areas such as safety, and services to remote and northern communities.

During the period in review, the National Capital Commission reached an agreement to obtain from private companies property management and leasing services, as well as maintenance and recreational services in Gatineau Park. Public Works and Government Services Canada has initiated an outsourcing of some of its architectural and engineering, real estate and property management services. This is expected to reduce its costs by some $40 million per year.

In 1995, the government reviewed the mandate and funding of Atomic Energy of Canada Limited (AECL) as part of Program Review. It decided that AECL should maintain a viable CANDU business. AECL was asked to focus on the CANDU business and its research and development, and to plan the closure of some facilities, including its Whiteshell Laboratories at Pinawa, Manitoba. The government announced on December 19, 1996, that it would seek private-sector interest in commercializing the Whiteshell site. The commercialization would include AECL's business not essential to the CANDU program. A 1997 proposal by Canadian Nuclear Projects Limited will form the basis for more detailed negotiations to commercialize the Whiteshell Laboratories.

Two bills that died on the Order Paper when Parliament was dissolved in April 1997 and that have implications for a number of Crown corporations were re-introduced in the House of Commons in October 1997.

The objective of Bill C-9, the Canada Marine Act, is to improve the effectiveness of Canada's major ports by creating a National Ports System comprising independently managed Canada Port Authorities (CPAs). The Bill proposes to streamline the regulatory regime for the new CPAs and other ports currently administered by Transport Canada, and to dissolve the Canada Ports Corporation, thereby reducing the administrative burden and overhead costs for the major ports. Bill C-9 would repeal the *Public Harbours and Ports Facilities Act*. It would allow the Minister of Transport to commercialize the operations of the Great Lakes-St. Lawrence Seaway system by entering into agreements with Seaway users or any other group to operate and maintain the Seaway. This Bill would also change several aspects of the marine pilotage system. Under the proposed

legislation, the pilotage authorities would be required to recover all of their costs from users of their services.

Bill C-4, which proposes amendments to the *Canadian Wheat Board Act,* provides that farmers in various electoral areas would elect 10 of the Wheat Board's proposed 15 directors. As well, Canada would continue to guarantee the provisional prices, and the Wheat Board's borrowings and receivables generated by certain credit grain sales.

Privatization

In 1996/97, the government completed two large privatization initiatives started in previous years. In November 1995, the government sold the Canadian National Railway Company (CN) for gross proceeds of $2.1 billion, with payment for the shares spread over two installments. On November 26, 1996, the government collected $900.9 million representing the final payment. In September 1995, the government sold 123.9 million shares of Petro-Canada. Purchasers paid for these shares in three installments over 18 months. In September 1996 and again in March 1997, the government received the second and third installments totaling $1.053 billion.

During 1996/97, the government completed the privatization of the Canada Communication Group (CCG) to the St. Joseph Corporation through a competitive sales process.

The government had previously announced its intention to sell its minority shareholding in National Sea Products Limited subject to market conditions and consultations with the company. The government had also signalled its intent to initiate the sale of Theratronics International Limited, when the company's operations warrant. The government remains committed to these privatization initiatives.

II. Crown Corporation Mandate Reviews

A review of the mandate of Atomic Energy of Canada Limited set the stage for the commercialization of its Whiteshell Laboratories, as described earlier in this section.

In April 1997, the Minister responsible for Canada Post Corporation reaffirmed that Canada Post would not be privatized, and introduced measures to improve postal service for Canadians. Service levels and standards would be set for rural Canada, and standards for both urban and rural Canada would be monitored independently and results reported to the minister. Canada Post's primary focus would be on the delivery of lettermail. In order to maintain affordable lettermail without subsidies, Canada Post would remain in competitive services and would not be asked to sell its interest in Purolator Courier. The price of stamps would not increase in 1997 or 1998. Future increases, when warranted, would be less than inflation, implemented no more than once a year and announced at least six months in advance.

The minister also announced that a Canada Post Ombudsman would be created, and that the Ombudsman would provide a statement for inclusion in the corporation's annual

report. As well, Canada Post would be required to provide an annual statement from its auditor on cross-subsidization between its competitive services and its exclusive privilege lettermail business. On August 28, 1997, Canada Post announced that it had established the Office of Ombudsman.

The Canada Mortgage and Housing Corporation (CMHC) is restructuring to meet a revised mandate. This includes having CMHC operate its insurance funds on a more commercial basis, represent Canada's housing interests internationally, and offer provincial and territorial governments the opportunity to manage the social housing resources. To date, three provinces and one territory have agreed to manage the federal social housing resources. In streamlining its organization, CMHC has adopted a regional business centre approach. Nearly all operating decisions are made in the field from five regional business centres.

Issues of General Interest and Relevance to Federal Crown Corporations

Corporate Governance

In June 1996, the President of the Treasury Board and the Minister of Finance issued *Guidelines for Corporate Governance in Crown Corporations and Other Public Enterprises*. The guidelines serve as benchmarks for governance practices and help strengthen accountability.

Several Crown corporations addressed the issue of corporate governance in their annual reports. No fewer than five of them indicated that they had established a corporate governance committee. These included Atomic Energy of Canada Limited, the Bank of Canada, the Business Development Bank of Canada, the Canadian Broadcasting Corporation and the Export Development Corporation. Five more corporations reported that they had reviewed or were reviewing the issue of corporate governance.

Executive Compensation

After six years of wage restraint, the government has returned to a market-based regime of determining wages for employees of Crown corporations. It has signalled to the top management of Crown corporations that a conservative, more performance-based approach to designing new compensation packages is expected. In addition, the government is seeking independent advice and recommendations on compensation strategies and principles concerning Public Service executives and Governor-in-Council appointees in departments and Crown corporations.

The Advisory Committee on Senior Level Retention and Compensation is expected to make its recommendations to the President of the Treasury Board in late 1997. The President will make the committee's report public.

Environment

Protection of the environment remains an important objective for Crown corporations and the government. Environmental assessment policies adopted by Crown corporations are aimed at providing exemplary results by ensuring that significant projects are evaluated within the spirit of the *Canadian Environmental Assessment Act.*

It is expected that work will continue in the year ahead on how Crown corporations would meet government objectives in protecting endangered species and the environment.

Official Languages

Under section 41 of the *Official Languages Act*, the government is committed to enhancing the vitality of English and French minority communities in Canada, and to fostering the full recognition and use of both languages in Canadian society. Section 42 of the Act requires the Minister of Canadian Heritage, in consultation with other ministers, to encourage and promote a co-ordinated approach to the implementation of section 41.

In March 1997, the Minister of Canadian Heritage and the President of the Treasury Board reaffirmed this commitment through a joint memorandum of understanding designed to provide greater accountability in the implementation of sections 41 and 42 of the *Official Languages Act*. It was intended to respond to the second report of the Standing Joint Committee on Official Languages on the implementation of sections 41 and 42.

The memorandum of understanding creates a process that would encourage a number of federal institutions, including several Crown corporations, to include, in their overall strategic planning and evaluation procedures, those activities aimed at fostering the development of minority official language communities in accordance with the government's commitment under section 41. The Treasury Board Secretariat is to provide guidance to help Crown corporations integrate into their overall strategic planning the specific strategies relating to their responsibility under that section. Canadian Heritage provides appropriate support to the Secretariat in this regard.

Payments in Lieu of Taxes

During the period in review, the final supplementary report of the Joint Technical Committee on Payments in Lieu of Taxes was submitted to the Minister of Public Works and Government Services and to the President of the Treasury Board. The committee, comprised of members representing the Federation of Canadian Municipalities, Public Works and Government Services Canada, and the Treasury Board Secretariat, was given the task of finding ways to improve the fairness of the system of payments in lieu of property taxes. The committee reached a consensus on several issues, including the need to design an appropriate and effective appeal mechanism. The committee's recommendations are under consideration by the government.

The Importance of Reporting to Parliament

The *Financial Administration Act* requires each scheduled Crown corporation to submit an annual report and summaries of the corporate plan and budget for tabling annually in Parliament. A well-functioning accountability framework is based on the timely receipt by Parliament of useful information on corporate performance. The corporate plan summary serves to inform Parliament of the objectives of the corporation as approved by the government, and the corporation's plans for achieving these objectives. The annual report, in addition to financial statements and the auditor's report, also presents information on the extent to which corporate objectives were met during the reporting period.

This report contains a section entitled 'Tabling of Reports in Parliament,' which provides a record of reports tabled during the past year.

Excellence in Reporting is Recognized

The Farm Credit Corporation and the Canada Deposit Insurance Corporation were the recipients of the 1996 Auditor General Award for Excellence in Annual Reporting by Crown Corporations. Established by the Auditor General of Canada in 1994, the award recognizes those corporations that provided the best accountability information. It is intended to act as an incentive to corporations to improve the annual reports and the summaries of corporate plans and budgets that are tabled in Parliament.

Crown Corporation Performance

This part provides a summary of the following general performance indicators as reported by Crown corporations:

- budgetary appropriations;
- debt obligations;
- assets;
- net income; and
- employment.

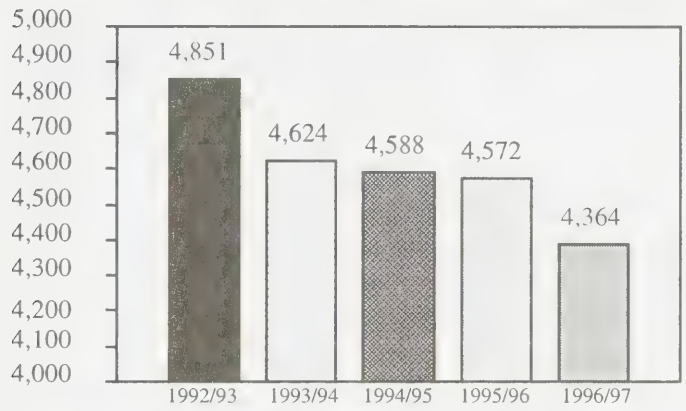
The privatization of CN contributed to a significant decline in the financial and employment aggregates of Crown corporations, and this decline is reflected in the exhibits that appear throughout this section. Data for CN are included for the years up to 1994/95. CN data are excluded from 1995/96 on. Exhibits 9 and 10 at the end of the Overview of the Portfolio section present the consolidated financial position, operating results and employment levels in Crown corporations by ministerial portfolio.

Budgetary Appropriations

Budgetary appropriations, or funding from Canada to Crown corporations, continued to decline. In 1996/97, these appropriations totalled $4,364 million — down from the

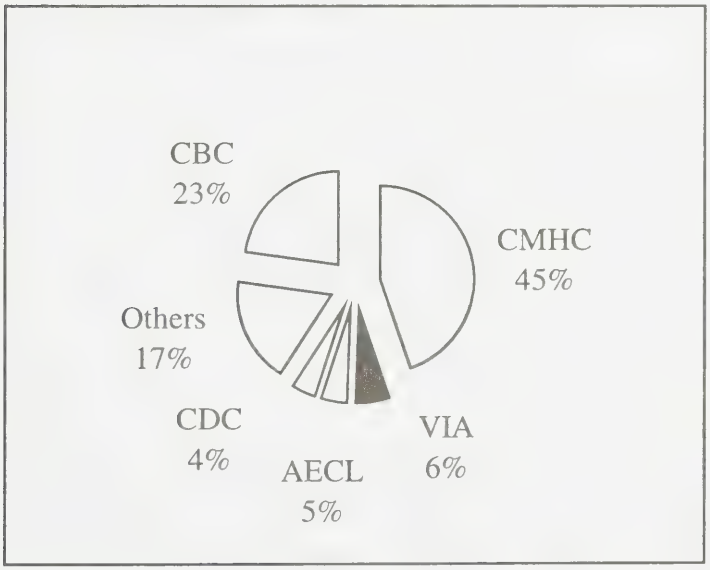
$4,572 million total the previous year. Exhibit 1 below illustrates the decline in appropriations over the last five years.

Exhibit 1: Total Budgetary Appropriations 1992/93 to 1996/97 ($ million)



In 1996/97, appropriations went to 29 Crown corporations. Exhibit 2 below identifies the five corporations that received 82 percent of all appropriations to Crown corporations.

Exhibit 2: Largest Beneficiaries of Budgetary Appropriations 1996/97



Canada Mortgage and Housing Corporation (CMHC)

Canadian Broadcasting Corporation (CBC)

VIA Rail Canada Inc. (VIA)

Atomic Energy of Canada Limited (AECL)

Canadian Dairy Commission (CDC)

Traditionally, the five corporations identified in exhibit 2 have been the largest recipients of government funding. In 1996/97, their combined appropriations declined to

$3,596 million from $3,818 million in 1995/96 — a decline of nearly 6 percent. The $173-million decrease in funding to the CBC accounted for most of the overall decline during 1996/97. In the case of CMHC, about 90 percent of appropriations flow to households in need under long-term subsidy commitments.

The reduction in funding to Crown corporations follows the 1996 Budget announcement. That Budget planned reductions over a five-year period of $180 million to CMHC, $63 million to VIA Rail, and $74 million to AECL.

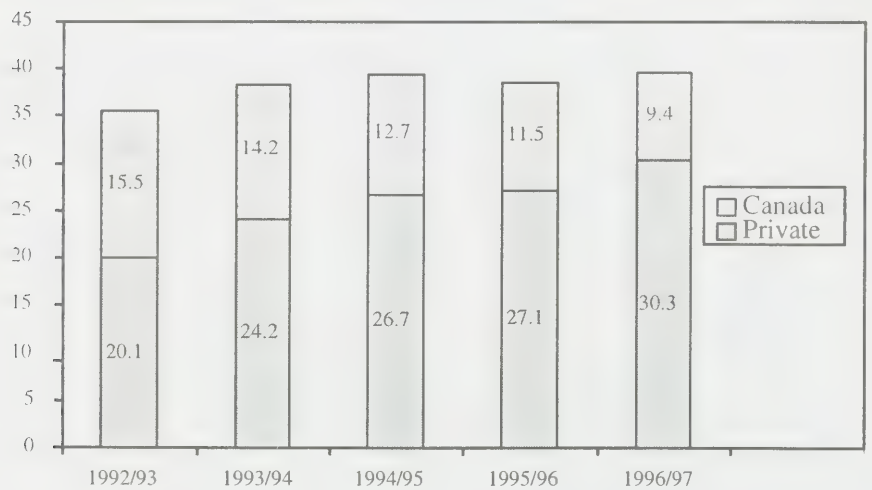
In contrast to the comparative results a year ago, the 4.5-percent decline in total appropriations to Crown corporations in 1996/97 from 1995/96 was smaller than the 6-percent decline in other government program spending over a similar period.

Debt Obligations

The total debt owed by Crown corporations, excluding the Bank of Canada, increased to $39.7 billion in 1996/97 from $38.6 billion the previous year. This represents a 2.8-percent increase. These total debt figures include debts payable both to Canada and to the private sector. Crown corporations have been encouraged to borrow from private markets where appropriate and to reduce their borrowings from Canada.

Exhibit 3 shows how Crown corporations have steadily substituted borrowings from Canada with borrowings from private lenders over the last five years.

Exhibit 3: Debt Obligations of Crown Corporations ($ billion)



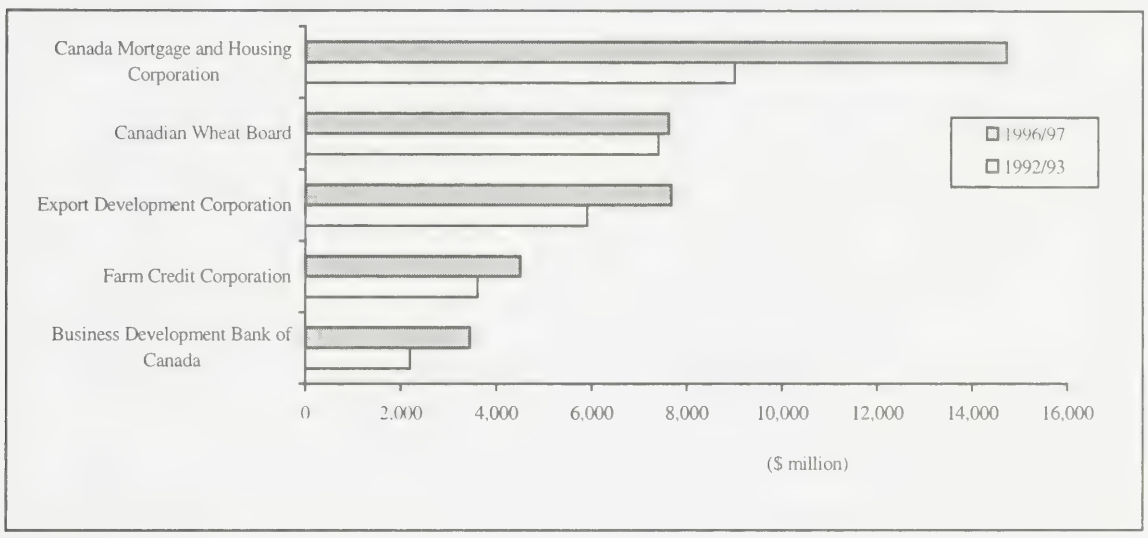
CMHC is the largest debt holder in the portfolio. Consistent with the trend outlined in Exhibit 3, the corporation is continuing to pay down its government debt, and all new borrowings are from the private sector.

Three other large debtors are the Business Development Bank of Canada, the Export Development Corporation and the Farm Credit Corporation. In 1996/97, these three

financial intermediaries held a combined debt of $15.6 billion compared to $14.6 billion the previous year. These debts are balanced by loans receivable of similar size.

Exhibit 4 identifies the five Crown corporations whose 1996/97 debt exceeds $1 billion and illustrates the increase in their respective debt loads since 1992/93. The increase for CMHC reflects private-market borrowing to provide direct lending under social housing. By self-financing the mortgages of social housing projects, CMHC has substantially reduced federal government subsidy costs.

Exhibit 4: Comparison of Largest Debtors in 1996/97 with 1992/93



Assets

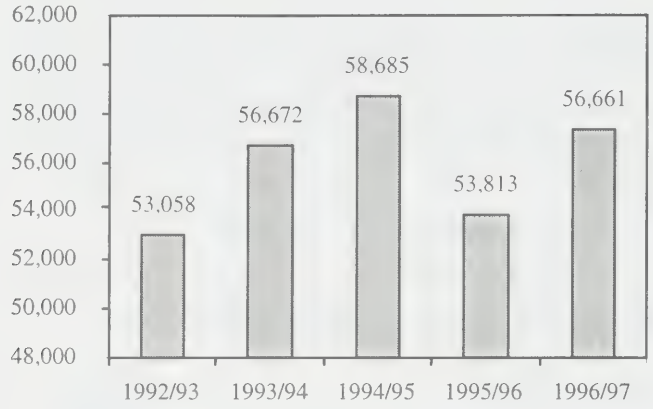
Crown corporation assets increased to $56.7 billion in 1996/97 from $53.8 billion the previous year. This 5.4-percent increase in assets is partly balanced by debt increases described earlier in this part.

Not all corporations increased their asset base. Increases in some Crown corporations' assets were moderated by decreases in those of other Crown corporations.

In 1996/97, increases in the value of assets were reported by Canada Mortgage and Housing Corporation, the Farm Credit Corporation, the Export Development Corporation and the Business Development Bank of Canada. Decreases were reported by the Canada Deposit Insurance Corporation, the Canadian Commercial Corporation, VIA Rail and the Canadian Broadcasting Corporation.

Exhibit 5 illustrates the fluctuations in the value of Crown corporations' assets over the last five years.

Exhibit 5: Crown Corporation Assets, 1992/93 to 1996/97 ($ million)



Net Income

The combined net income of Crown corporations fell to $53.1 million in 1996/97 from the previous year's total of $594.1 million. This precipitous decline was due mostly to a change in The Canadian Wheat Board's method of reporting net income in its annual report. Specifically, it has adopted the policy of recording no net income in recognition of the fact that its revenues after expenses are distributed to farmers.

A number of corporations improved their financial performance as measured by net income. Exhibit 6 shows corporations with the largest improvement in net income in 1996/97 relative to a year earlier. Other corporations reported declines in their 1996/97 net income — the Canada Deposit Insurance Corporation showed a decline in net income to $124.8 million in 1996/97 from $446.2 million in 1995/96. The National Capital Commission, Canada Mortgage and Housing Corporation's Administered Funds, and Marine Atlantic Inc. had lower net incomes reported relative to a year ago. Exhibit 10 at the end of the Overview section shows the net income of individual corporations by ministerial portfolio.

Exhibit 6: Corporations with the Largest Increase in Net Income in 1996/97 ($ million)

Corporation	Net Income (Loss)		Improvement in Net Income
	1995/96	1996/97	
Cape Breton Development Corporation	(207.4)	(30.1)	177.3
Canadian Broadcasting Corporation	(159.8)	(23.0)	136.8
Canada Post Corporation	28.2	112.5	84.3
Export Development Corporation	44.0	112.0	68.0
Canada Council	12.0	45.7	33.7
Atomic Energy of Canada Limited	(9.9)	15.4	25.3
Business Development Bank of Canada	31.6	50.7	19.1
Canada Lands Company Limited	0.5	10.4	9.9
International Development Research Centre	(5.5)	2.1	7.6

Employment

The number of Crown corporation employees continued to decline. In 1996/97, the total number of employees was 75,074 compared to 77,614 in 1995/96, which is a 3.3-percent decrease. This decline was due mainly to reduced employment at Atomic Energy of Canada Limited, the Bank of Canada, the Canadian Broadcasting Corporation, Canada Post Corporation, Canada Mortgage and Housing Corporation, the Cape Breton Development Corporation, the National Capital Commission and VIA Rail Canada Inc.

Exhibit 7 shows the declining trend in employment in Crown corporations over the past five years. The main decline between 1994/95 and 1995/96 was due to the privatization of CN.

Exhibit 7: Employment in Crown Corporations, 1992/93 to 1996/97

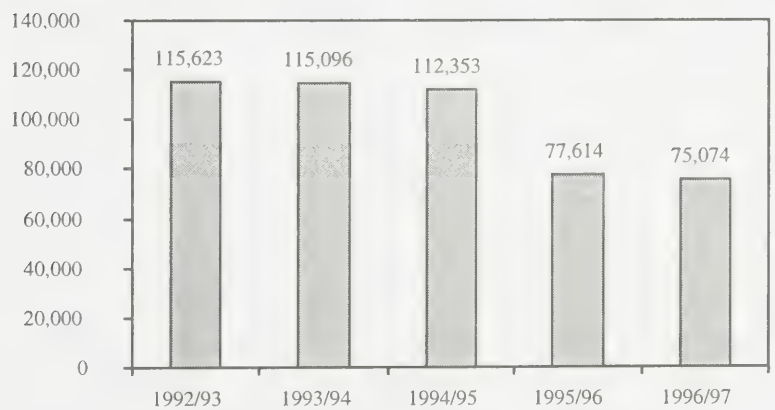


Exhibit 8: Crown Corporations Grouped by Ministerial Portfolio

Agriculture and Agri-Food
App: 187.6 E: 862

- Canadian Dairy Commission
- Farm Credit Corporation

Canadian Heritage
App: 1,406.4 E: 9,433

- Canada Council
- Canadian Broadcasting Corporation
- Canadian Film Development Corporation
- Canadian Museum of Civilization
- Canadian Museum of Nature
- Canadian Race Relations Foundation
- National Arts Centre Corporation
- National Capital Commission
- National Gallery of Canada
- National Museum of Science and Technology

Finance
App: 0 E: 1,691

- Bank of Canada
- Canada Deposit Insurance Corporation
- Canada Development Investment Corporation
- Petro-Canada Limited

Fisheries and Oceans
App: 0 E: 32

- Freshwater Fish Marketing Corporation

Foreign Affairs
App: 97.5 E: 357

- International Development Research Centre

Industry
App: 26.8 E: 1,185

- Business Development Bank of Canada
- Enterprise Cape Breton Corporation
- Standards Council of Canada

International Trade
App: 10.9 E: 692

- Canadian Commercial Corporation
- Export Development Corporation

Natural Resources and The Canadian Wheat Board
App: 241.0 E: 6,023

- Atomic Energy of Canada Limited
- Canadian Wheat Board, The
- Cape Breton Development Corporation

Public Works and Government Services
App: 2,010.2 E: 47,529

- Canada Lands Company Limited
- Canada Mortgage and Housing Corporation
- Canada Post Corporation
- Defence Construction (1951) Limited
- Old Port of Montreal Corporation Inc.*
- Queens Quay West Land Corporation
- Royal Canadian Mint

Transport
App: 383.5 E: 7,270

- Atlantic Pilotage Authority
- Canada Ports Corporation
- Great Lakes Pilotage Authority, Ltd.
- Halifax Port Corporation
- Laurentian Pilotage Authority
- Marine Atlantic Inc.
- Montreal Port Corporation
- Pacific Pilotage Authority
- Port of Quebec Corporation
- Prince Rupert Port Corporation
- Saint John Port Corporation
- St. John's Port Corporation
- St. Lawrence Seaway Authority, The
- Vancouver Port Corporation
- VIA Rail Canada Inc.

App = Budgetary appropriations ($ million)
E = Employment
At the corporate year ends, before July 31, 1997.

* The Old Port of Montreal Corporation Inc., a wholly owned subsidiary of the Canada Lands Company Limited, has been directed by Order in Council (P.C. 1987-86) to report as if it were a parent Crown corporation.

Crown Corporations: Portfolio-based Review

Exhibit 8 illustrates the federal Crown corporations grouped according to the ministerial portfolios through which they are accountable to Parliament. This portfolio grouping is used for purposes of the following review of issues relating to the corporations. Specific information about individual Crown corporations may be found in the Corporate Abstracts section of this report.

Exhibit 9 shows each corporation's employment and financial position, and Exhibit 10 provides information about each corporation's operating results and financing. These exhibits, which appear at the end of this part, are also structured according to the portfolio grouping shown in Exhibit 8.

For Crown corporations with fiscal years ending on or after July 31, 1997, this report reflects financial data for the fiscal year ending in 1996. Accordingly, for the Canadian Dairy Commission, The Canadian Wheat Board and the National Arts Centre Corporation, this report covers the period ending July 31, 1996 for the first two corporations, and August 31, 1996 for the third. All other corporations' data are for their respective 1996 or 1996/97 fiscal years.

This section contains several references to a corporation's or group's "self-sustaining percentage". This term means the percentage of revenues to operating expenses.

Agriculture and Agri-Food

During the period in review, responsibility for The Canadian Wheat Board was removed from this portfolio when the former Minister of Agriculture and Agri-Food assumed responsibility for Natural Resources Canada while retaining responsibility for The Canadian Wheat Board. In 1996/97, the remaining two Crown corporations in the Agriculture and Agri-Food portfolio had 862 employees, with the Farm Credit Corporation accounting for 800. The Canadian Dairy Commission was the only Crown corporation in this portfolio to receive budgetary appropriations. It received a total of $187.6 million — 98.5 percent of which comprised subsidy payments to farmers.

Canadian Dairy Commission
Farm Credit Corporation

The Canadian Dairy Commission is a key facilitator within the Canadian dairy sector. It is responsible for giving producers and processors the opportunity to obtain a fair return for their labour and investment by administering policies and programs that meet their needs, while ensuring that Canadian consumers have access to a continuous and adequate supply of quality dairy products.

In fulfilling its mandate, the commission provides a framework for the federal-provincial participation that is crucial given the shared jurisdiction in the industry. Some of the key issues facing the dairy industry include the phasing out of the dairy subsidy, the

development of a long-term dairy policy, the setting of support prices and the production of non-quota milk.

In providing financing to Canadian primary producers, farm-related businesses and agri-businesses, the Farm Credit Corporation's challenge will be to keep up with the drastic changes that are being driven by consumer trends, increased competition and technology. These influences are being felt not only in the agriculture industry, but across the Canadian economy as a whole.

Canadian Heritage

During the period in review, corporations in the Canadian Heritage portfolio had a total of 9,433 employees or nearly 13 percent of all Crown corporation employees. Excluding the Canadian Race Relations Foundation, which commenced operations in 1996, appropriations to this portfolio's Crown corporations totalled $1.4 billion — a decrease of $203.7 million or 12.2 percent from 1995/96. With the exception of the Canadian Museum of Nature and the National Arts Centre Corporation, all corporations had a decline in budgetary appropriations.

Canada Council
Canadian Broadcasting Corporation
Canadian Film Development Corporation
Canadian Museum of Civilization
Canadian Museum of Nature
Canadian Race Relations Foundation
National Arts Centre Corporation
National Capital Commission
National Gallery of Canada
National Museum of Science and Technology

Net income for the Crown corporations in the Canadian Heritage portfolio improved in 1996/97 from a loss of $390 million to a loss of $268.7 million. The self-sustaining percentage for these corporations remained relatively stable at 21 percent in 1996/97 compared to previous years.

In response to decreased appropriations for programming purposes and in anticipation of future decreases in appropriations, Crown corporations in the Canadian Heritage portfolio are streamlining their operations and management structures. They are also pursuing alternative funding sources, including fundraising, sponsorship and commercial operations. For example, Telefilm's *1996-97 Action Plan* — a large-scale overhaul of the corporation's programs, activities and operating procedures — resulted in a 25-percent reduction in its administrative expenses. In another case, the National Museum of Science and Technology has attempted to generate an increasing proportion of its operating budget from admissions, the sale of its products and services, and through sponsorships and donations.

Finance

Bank of Canada
Canada Deposit Insurance Corporation
Canada Development Investment Corporation
Petro-Canada Limited

The Minister of Finance is responsible for four Crown corporations. The Bank of Canada is the largest corporation in this group. It formulates and implements monetary policy in Canada, and acts as the government's fiscal agent. The other Crown corporations in the Finance portfolio provide a variety of services ranging from deposit insurance to financial management.

In 1996/97, these corporations had a total of 1,691 employees, of whom 1,600 were employed by the Bank of Canada. Crown corporations in the Finance portfolio received no budgetary appropriations during the year. Net income for these corporations, excluding the Bank of Canada, fell from $473 million in 1995/96 to $142 million in 1996/97. The Canada Deposit Insurance Corporation accounted for 97 percent of this decline. Total dividends paid to Canada amounted to $31.3 million in 1996/97, compared to $10 million in the previous year. These were paid by the Canada Development Investment Corporation.

Fisheries and Oceans

The Freshwater Fish Marketing Corporation is the only Crown corporation in the Fisheries and Oceans portfolio. The corporation had 32 employees in 1996/97 and operates on a self-sustaining basis. Profits at the end of the year are distributed to its client fishers.

The corporation reported that the fish products it markets are facing increased competition from within and outside the fish and seafood industry. Nonetheless, it is encouraged by the gains it has made in new markets in Eastern Europe and elsewhere.

Foreign Affairs

The International Development Research Centre (IDRC) is the only Crown corporation in the Foreign Affairs portfolio. In 1996/97, IDRC had 357 employees — a reduction of 66 from the previous year. In 1996/97, it received $97.5 million in budgetary appropriations. Of this, IDRC disbursed $83.7 million for development-research activities. Its self-sustaining percentage was 20 percent.

The corporation has signalled a change in direction to respond to the challenges of development in the information age. Specifically, its approach to the problems associated with global poverty will be multidisciplinary rather than focused on the traditional lines of scientific enquiry.

Industry

Business Development Bank of Canada
Enterprise Cape Breton Corporation
Standards Council of Canada

Crown corporations in the Industry portfolio conduct activities ranging from financial intermediation to the promotion of

standardization. Regional development is another area of Crown corporation involvement. As well, the Minister of Industry is responsible for all three of Canada's non-corporate regional development agencies. These are the Atlantic Canada Opportunities Agency (ACOA); the Federal Office of Regional Development (Quebec) [FORD-Q]; and Western Economic Diversification (WED).

In 1996/97, the three Crown corporations in this portfolio had a total of 1,185 employees — 90 percent of whom were employed by the Business Development Bank of Canada (BDC). The Enterprise Cape Breton Corporation received $14.7 million of the $26.8 million in budgetary appropriations paid to these three corporations.

In 1996/97, all Crown corporations in this portfolio showed an improvement in net income over the previous year. Total dividends paid to Canada during 1996/97 amounted to $3.4 million — all of which were paid by BDC.

In April 1996, the Senate Standing Committee on Banking, Trade and Commerce issued a report entitled *Crown Financial Institutions*. This report examined the issue of how the federal government's financial institutions — the Export Development Corporation, the Canadian Commercial Corporation, the Business Development Bank of Canada and the Farm Credit Corporation — function in relation to the private sector and to one another. The Committee also looked at the operations of ACOA, FORD-Q and WED.

In responding to the Senate Committee in July 1996, the Minister of Industry stated that, over the past year, the organizations had undergone a series of changes designed to improve client service and reduce duplication and overlap. To ensure continued progress, the minister announced the creation of a Council of Crown Financial Institutions (CFIs) consisting of the chairs and chief executive officers of the CFIs and deputy ministers concerned.

International Trade

Canadian Commercial Corporation
Export Development Corporation

In 1996/97, the Canadian Commercial Corporation (CCC) received $10.9 million in budgetary appropriations. The Export Development Corporation (EDC) was financially self-sufficient. During the year, these corporations employed a total of 692 employees — of whom 602 were employed by EDC. Both corporations showed an improvement in net income in 1996/97, with EDC accounting for 97 percent of the $70.3 million increase over that in 1995/96.

The roles of the two corporations in promoting Canadian exports differ. In its dealings with foreign governments and international agencies, CCC facilitates sales by assuming the role of the prime contractor. EDC's role is to reduce the financial risk to Canadian exporters by providing credit insurance, loans, guarantees and other financial services.

Natural Resources and The Canadian Wheat Board

During the period in review, The Canadian Wheat Board was added to this portfolio when the former Minister of Agriculture and Agri-Food became the Minister of Natural Resources. These three corporations had a total of 6,023 employees, 61 percent of whom were employed by Atomic Energy of Canada Limited (AECL). There was a significant increase in budgetary appropriations — from $174.6 million in 1995/96 to $241 million in 1996/97. This increase resulted from $23 million in restructuring costs at AECL and a $43.5 million repayable appropriation to the Cape Breton Development Corporation (Devco).

Atomic Energy of Canada Limited
Canadian Wheat Board, The
Cape Breton Development Corporation

Some of the challenges that the Canadian grain industry will be facing in the future include biotechnology in plant breeding, contract registration, the changing role of technology, rapidly evolving marketing and delivery practices, and a reduction in the number of primary elevators in Canada. In addition, Bill C-4, which proposes amendments to the *Canadian Wheat Board Act*, has direct implications for The Canadian Wheat Board and its clients.

AECL and Devco both reported progress in the area of environmental management. AECL's Environmental Protection Program was formally adopted, and Devco began developing its Environmental Management System, which will address issues such as organizational structure, planning activities, and practices and resources necessary to implement and maintain environmental policies. Both of these systems are based on the environmental management standards of the International Organization for Standardization.

The Special Committee of the Senate on the Cape Breton Development Corporation has been mandated to examine Devco's annual report, corporate plan and progress reports. The committee is to submit its final report no later than December 15, 1997.

Public Works and Government Services

The Public Works and Government Services portfolio includes Crown corporations that perform a number of different functions ranging from contract management to the minting of coins. The two largest Crown corporations in this portfolio are the Canada Mortgage and Housing Corporation (CMHC) and the Canada Post Corporation.

Canada Lands Company Limited
Canada Mortgage and Housing Corporation
Canada Post Corporation
Defence Construction (1951) Limited
Old Port of Montreal Corporation Inc.
Queens Quay West Land Corporation
Royal Canadian Mint

In 1996/97, the seven Crown corporations in this portfolio had a total of 47,529 employees, of whom 43,831 were employed by Canada Post. The

latter represents 58 percent of all Crown corporation employees.

Budgetary appropriations for the Crown corporations in this portfolio totalled $2 billion. Of this amount, CMHC received $1.97 billion or 45 percent of all budgetary appropriations to Crown corporations. Of this amount, $1.87 billion was dedicated to the corporation's continuing responsibility for federal social housing funding. CMHC fulfils this part of its mandate by participating in assisted housing initiatives on behalf of the federal government. Another part of the corporation's role is to provide mortgage loan insurance, mortgage-backed securities and mortgage rate protection.

The Crown corporations in the Public Works and Government Services portfolio showed a significant improvement in net income in 1996/97 — to $130 million from $105 million in the previous year. Of the group, Canada Post reported the largest increase in net income — from $28.2 million to $112.5 million. Total dividends paid by these Crown corporations to Canada amounted to $33.8 million in 1996/97, of which approximately one third each was paid by three corporations — Canada Lands Company Limited, CMHC's Administered Funds and Canada Post.

Transport

The Minister of Transport is responsible for more Crown corporations than any other minister. The 15 parent Crown corporations in this portfolio include the port corporations, the pilotage authorities, and the rail and marine corporations. This portfolio also includes two wholly owned subsidiaries, The Jacques Cartier and Champlain Bridges Inc. and The Seaway International Bridge Corporation, Ltd., whose financial results are not consolidated with their parent corporation.

- Atlantic Pilotage Authority
- Canada Ports Corporation
- Great Lakes Pilotage Authority, Ltd.
- Halifax Port Corporation
- Laurentian Pilotage Authority
- Marine Atlantic Inc.
- Montreal Port Corporation
- Pacific Pilotage Authority
- Port of Quebec Corporation
- Prince Rupert Port Corporation
- Saint John Port Corporation
- St. John's Port Corporation
- St. Lawrence Seaway Authority, The
- Vancouver Port Corporation
- VIA Rail Canada Inc.

In 1996/97, the corporations had a total of 7,270 employees, or 9.7 percent of all Crown corporation employees. Appropriations to these corporations totalled nearly $384 million in 1996/97 — a decrease of 9.5 percent from the previous year. Total dividends paid to Canada during the year amounted to $6.2 million, of which 92 percent was received from the Vancouver and Montreal port corporations.

Crown corporations in the Transport portfolio have become increasingly self-sufficient over the past five years. In 1996/97, they had a self-sustaining percentage of 74 percent compared to 57 percent in 1992/93. Total 1996/97 losses for these Crown corporations amounted to $140.7 million. Marine Atlantic Inc. and VIA Rail Canada Inc. reported net

losses of $75 million and $70 million respectively. In addition, The Jacques Cartier and Champlain Bridges Inc. reported a net loss of $28.7 million. These losses were offset by net incomes for most of the other transport-related Crown corporations.

Since 1989, VIA Rail has increased its operating cost recovery to 47 percent and reduced its total government funding requirements to $245 million. This has been accomplished through cost cutting, a continuing program of staff reduction and renegotiation of labour agreements, plus modest gains in revenues. Between 1992 and 1996, VIA Rail's funding has declined by $143.7 million. A further $29 million reduction is planned for 1997/98.

VIA Rail is under continuing pressure to reduce its dependence on government payments and to recover more from fares. Much of its equipment is old and, although it has been refurbished, will require replacing.

In 1996/97, Crown corporations operating in the marine transport sector received $110.5 million in budgetary appropriations and had 4,210 employees, compared to 4,237 employees in 1995/96. With the exception of the Great Lakes Pilotage Authority, Ltd., Marine Atlantic Inc., The St. Lawrence Seaway Authority and the Vancouver Port Corporation, all corporations in the marine sector showed an improvement in net income over 1995/96.

In 1996/97, the government forgave approximately $23 million in federal debt owed by port corporations. Of this, $5 million was for the Prince Rupert Port Corporation and approximately $18 million was for the Saint John Port Corporation. The latter was complemented by $19 million in debt forgiveness by the province of New Brunswick for a total of $37 million to ensure the corporation's financeability when converted to a Canada Port Authority[1]. The federal government also forgave $6.3 million in federal debt owed by the Canada Ports Corporation's (CPC) Interport Loan Fund, which was an amount equal to the forgiveness by CPC of Port of Quebec Corporation loans.

Bill C-9, the Canada Marine Act, proposes major changes for Crown corporations operating in the marine sector. These were discussed earlier in the section entitled Corporate Environment and are noted in the Corporate Abstracts.

[1] A new corporate structure for the local port corporations contained in the proposed Canada Marine Act.

Exhibit 9: Employment and Financial Position Grouped by Ministerial Portfolio (as of year ends before July 31, 1997; $ million)

Corporation by Ministerial Portfolio	Financial Position				Employment
	Total Assets	Current Liabilities	Long-term Liabilities	Equity	
Canadian Dairy Commission	158.6	83.3	75.3	0.0	62
Farm Credit Corporation	5,022.5	1,575.3	2,989.4	457.7	800
Total Agriculture and Agri-Food	**5,181.0**	**1,658.6**	**3,064.7**	**457.7**	**862**
Canada Council	200.3	34.4	0.0	232.1	132
Canadian Broadcasting Corporation	1,664.7	353.9	552.8	758.0	7,311
Canadian Film Development Corporation	52.3	20.4	0.8	31.1	130
Canadian Museum of Civilization	31.3	12.8	2.1	16.4	510
Canadian Museum of Nature	55.9	14.3	35.5	6.1	193
Canadian Race Relations Foundation	-	-	-	-	-
National Arts Centre Corporation	19.8	9.2	0.9	9.7	296
National Capital Commission	396.2	25.0	13.5	357.7	376
National Gallery of Canada	23.6	7.3	4.3	12.0	257
National Museum of Science and Technology	11.6	2.7	1.6	7.3	228
Total Canadian Heritage	**2,455.8**	**480.0**	**611.5**	**1,430.6**	**9,433**
Bank of Canada[1]	-	-	-	-	1,600
Canada Deposit Insurance Corporation	847.4	472.6	1,551.0	(1,176.2)	88
Canada Development Investment Corporation	124.0	25.1	0.0	98.9	3
Petro-Canada Limited	448.0	36.0	409.0	3.0	0
Total Finance	**1,419.4**	**533.7**	**1,960.0**	**(1,074.2)**	**1,691**
Freshwater Fish Marketing Corporation	20.1	16.0	0.0	4.2	32
Total Fisheries and Oceans	**20.1**	**16.0**	**0.0**	**4.2**	**32**
International Development Research Centre	53.3	33.2	10.9	9.2	357
Total Foreign Affairs	**53.3**	**33.2**	**10.9**	**9.2**	**357**
Business Development Bank of Canada	4,029.8	1,314.0	2,248.1	467.6	1,066
Enterprise Cape Breton Corporation	7.0	2.5	0.4	4.1	47
Standards Council of Canada	4.2	1.8	0.1	2.4	72
Total Industry	**4,041.0**	**1,318.3**	**2,248.6**	**474.0**	**1,185**
Canadian Commercial Corporation	250.5	231.6	1.6	17.3	90
Export Development Corporation	9,706.0	1,981.0	6,308.0	1,417.0	602
Total International Trade	**9,956.5**	**2,212.6**	**6,309.6**	**1,434.3**	**692**

[1] Financial data for the Bank of Canada are excluded from the table due to the unique nature of its operations. The corresponding data are available in the corporation's corporate abstract.

Exhibit 9: Employment and Financial Position Grouped by Ministerial Portfolio (as of year ends before July 31, 1997; $ million) [cont'd]

Corporation by Ministerial Portfolio	Financial Position				Employment
	Total Assets	Current Liabilities	Long-term Liabilities	Equity	
Atomic Energy of Canada Limited	1,040.5	291.7	290.8	458.1	3,675
Canadian Wheat Board, The (CWB)	8,281.2	1,818.7	6,462.5	0.0	454
Cape Breton Development Corporation	252.6	48.1	126.1	78.4	1,894
Total Natural Resources and CWB	**9,574.3**	**2,158.5**	**6,879.4**	**536.5**	**6,023**
Canada Lands Company Limited	403.8	5.5	148.7	249.6	325
Canada Lands (Vieux Port de Québec) Inc.[2]	0.5	0.3	0.0	0.2	0
Canada Museums Construction Corporation Inc.[2]	0.0	0.3	0.0	(0.3)	0
Canada Mortgage and Housing Corporation					2,565
Administered Funds	2,548.2	16.9	2,483.6	47.6	
Corporate Account	15,098.0	1,940.2	13,129.2	28.6	
Minister's Account	0.0	0.0	0.0	0.0	
Canada Post Corporation	2,725.8	901.3	695.7	1,128.7	43,831
Defence Construction (1951) Limited	4.0	1.7	1.9	0.5	221
Old Port of Montreal Corporation Inc.[3]	1.4	1.0	0.4	0.0	77
Queens Quay West Land Corporation	3.0	1.9	45.8	(44.7)	0
Royal Canadian Mint	85.5	19.1	5.5	60.8	510
Total Public Works and Government Services	**20,870.2**	**2,888.3**	**16,510.8**	**1,471.1**	**47,529**
Atlantic Pilotage Authority	2.6	0.8	0.7	1.1	70
Canada Ports Corporation	271.6	22.1	237.5	12.1	253
Great Lakes Pilotage Authority, Ltd.	10.5	4.2	2.3	4.0	78
Halifax Port Corporation	74.7	5.7	0.7	68.2	65
Laurentian Pilotage Authority	11.5	10.1	3.0	(1.6)	217
Marine Atlantic Inc.	326.1	98.5	315.1	(87.6)	2,011
Montreal Port Corporation	250.9	12.8	6.8	231.3	335
Pacific Pilotage Authority	5.8	2.8	0.7	2.3	167
Port of Quebec Corporation	61.9	2.3	0.6	59.1	57
Prince Rupert Port Corporation	112.3	1.9	9.6	100.7	17
Saint John Port Corporation	69.5	5.2	0.4	63.9	36
St. John's Port Corporation	17.6	0.6	0.2	16.7	13
St. Lawrence Seaway Authority, The	609.8	18.0	13.7	578.2	711
Jacques Cartier & Champlain Bridges Inc.[2]	16.3	3.3	0.3	12.6	42
Seaway International Bridge Corp. Ltd.[2]	2.2	0.5	1.7	0.0	18
Vancouver Port Corporation	533.7	39.4	133.3	361.0	180
VIA Rail Canada Inc.	712.5	84.8	36.7	591.0	3,000
Total Transport	**3,089.5**	**313.1**	**763.2**	**2,013.1**	**7,270**
Grand Total	**56,661.2**	**11,612.1**	**38,358.8**	**6,756.3**	**75,074**

[2] Four wholly owned subsidiaries have been added to the table because their financial affairs are not consolidated with their parent Crown corporation.

[3] The Old Port of Montreal Corporation Inc., a wholly owned subsidiary of the Canada Lands Company Limited, has been directed by Order in Council (P.C. 1987-86) to report as if it were a parent Crown corporation.

Exhibit 10: Operating Results and Financing Grouped by Ministerial Portfolio (as of year ends before July 31, 1997; $ million)

	Operating Results	Financing			
		Changes to Net Borrowings			
Corporation by Ministerial Portfolio	Net Income	Private Sector	Canada	Budgetary Appropriations	Dividends
Canadian Dairy Commission	12.4	(31.7)	5.9	187.6	0.0
Farm Credit Corporation	40.6	754.4	(98.7)	0.0	2.7
Total Agriculture and Agri-Food	**53.0**	**722.7**	**(92.8)**	**187.6**	**2.7**
Canada Council	45.7	0.0	0.0	91.1	0.0
Canadian Broadcasting Corporation	(23.0)	(6.8)	0.0	997.1	0.0
Canadian Film Development Corporation	(136.4)	0.0	0.0	92.4	0.0
Canadian Museum of Civilization	(45.4)	0.0	0.0	44.2	0.0
Canadian Museum of Nature	(27.8)	37.4	0.0	27.1	0.0
Canadian Race Relations Foundation	-	-	-	-	-
National Arts Centre Corporation	(19.5)	(0.3)	0.0	20.6	0.0
National Capital Commission	(14.5)	0.0	0.0	84.2	0.0
National Gallery of Canada	(28.4)	0.0	0.0	29.8	0.0
National Museum of Science and Technology	(19.5)	0.0	0.0	19.7	0.0
Total Canadian Heritage	**(268.7)**	**30.3**	**0.0**	**1,406.4**	**0.0**
Bank of Canada[1]	-	-	-	-	-
Canada Deposit Insurance Corporation	124.8	0.0	(1,640.1)	0.0	0.0
Canada Development Investment Corporation	16.2	0.0	0.0	0.0	31.3
Petro-Canada Limited	1.0	(70.0)	0.0	0.0	0.0
Total Finance	**142.0**	**(70.0)**	**(1,640.1)**	**0.0**	**31.3**
Freshwater Fish Marketing Corporation	0.0	(0.4)	0.0	0.0	0.0
Total Fisheries and Oceans	**0.0**	**(0.4)**	**0.0**	**0.0**	**0.0**
International Development Research Centre	2.1	0.0	0.0	97.5	0.0
Total Foreign Affairs	**2.1**	**0.0**	**0.0**	**97.5**	**0.0**
Business Development Bank of Canada	50.7	328.5	0.0	6.9	3.4
Enterprise Cape Breton Corporation	(13.4)	0.0	0.0	14.7	0.0
Standards Council of Canada	0.2	0.0	0.0	5.2	0.0
Total Industry	**37.5**	**328.5**	**0.0**	**26.8**	**3.4**
Canadian Commercial Corporation	0.6	0.0	0.0	10.9	0.0
Export Development Corporation	112.0	78.0	0.0	0.0	0.0
Total International Trade	**112.6**	**78.0**	**0.0**	**10.9**	**0.0**

[1] Financial data for the Bank of Canada are excluded from the table due to the unique nature of its operations. The corresponding data are available in the corporation's corporate abstract.

Exhibit 10: Operating Results and Financing Grouped by Ministerial Portfolio (as of year ends before July 31, 1997; $ million) [cont'd]

	Operating Results	Financing			
		Changes to Net Borrowings			
Corporation by Ministerial Portfolio	Net Income	Private Sector	Canada	Budgetary Appropriations	Dividends
Atomic Energy of Canada Ltd.	15.4	(2.2)	(1.4)	197.5	0.0
Canadian Wheat Board, The (CWB)	0.0	475.0	0.0	0.0	0.0
Cape Breton Development Corporation	(30.1)	0.0	28.5	43.5	0.0
Total Natural Resources and CWB	**(14.8)**	**472.8**	**27.1**	**241.0**	**0.0**
Canada Lands Company Ltd.	10.4	(21.1)	36.2	0.0	10.9
Canada Lands (Vieux Port de Québec) Inc.[2]	0.0	0.0	0.0	0.0	0.0
Canada Museums Construction Corporation Inc.[2]	0.6	0.0	0.0	0.0	0.0
Canada Mortgage and Housing Corporation	-	-	-	-	-
Administered Funds	16.6	0.0	(13.3)	0.0	12.9
Corporate Account	(6.6)	1,605.6	(394.2)	0.0	0.0
Minister's Account	0.0	0.0	0.0	1,968.1	0.0
Canada Post Corporation	112.5	(23.4)	0.0	14.0	10.0
Defence Construction (1951) Limited	0.7	0.0	0.0	17.6	0.0
Old Port of Montreal Corporation Inc.[3]	(3.5)	0.0	0.0	3.8	0.0
Queens Quay West Land Corporation	(2.2)	0.0	0.0	6.7	0.0
Royal Canadian Mint	1.5	(6.4)	(0.1)	0.0	0.0
Total Public Works and Gov't. Services	**130.0**	**1,554.8**	**(371.4)**	**2,010.2**	**33.8**
Atlantic Pilotage Authority	0.6	0.0	0.0	0.0	0.0
Canada Ports Corporation	13.2	(8.0)	(0.1)	1.0	0.3
Great Lakes Pilotage Authority, Ltd.	1.0	0.0	0.0	0.0	0.0
Halifax Port Corporation	3.1	0.0	0.0	0.0	0.2
Laurentian Pilotage Authority	(2.8)	3.9	0.0	0.7	0.0
Marine Atlantic Inc.	(75.3)	0.0	0.0	85.7	0.0
Montreal Port Corporation	11.8	0.0	(0.6)	0.0	2.4
Pacific Pilotage Authority	0.2	0.0	0.0	0.0	0.0
Port of Quebec Corporation	0.5	0.0	0.0	0.0	0.0
Prince Rupert Port Corporation	0.7	0.0	(5.3)	5.0	0.0
Saint John Port Corporation	2.1	(19.7)	(18.1)	18.1	0.0
St. John's Port Corporation	0.6	0.0	0.0	0.0	0.0
St. Lawrence Seaway Authority, The	2.9	0.0	0.0	0.0	0.0
The Jacques Cartier & Champlain Bridges Inc.[2]	(28.7)	0.0	0.0	27.8	0.0
The Seaway International Bridge Corp. Ltd.[2]	0.0	0.0	0.0	0.0	0.0
Vancouver Port Corporation	(0.5)	91.6	(0.4)	0.0	3.3
VIA Rail Canada Inc.	(70.1)	0.0	0.0	245.2	0.0
Total Transport	**(140.7)**	**67.9**	**(24.4)**	**383.5**	**6.2**
Grand Total	**53.1**	**3,184.5**	**(2,101.7)**	**4,363.9**	**77.4**

[2] Four wholly owned subsidiaries have been added to the table because their financial affairs are not consolidated with their parent Crown corporation.

[3] The Old Port of Montreal Corporation Inc., a wholly owned subsidiary of the Canada Lands Company Limited, has been directed by Order in Council (P.C. 1987-86) to report as if it were a parent Crown corporation.

CORPORATE ABSTRACTS

INTRODUCTION

The corporate abstracts are intended to provide readers with an overview of each parent Crown corporation, including its public policy mandate, the nature of its activities, its performance and corporate strategies. Readers wishing to obtain further information about a particular corporation and its activities should contact the corporation at the address or telephone number provided.

The abstract for each corporation begins by identifying the key individuals responsible for the management and accountability of the corporation, including the appropriate minister, the chairperson of the board of directors, the chief executive officer and the external auditors. Also provided are the corporation's head office address and telephone and facsimile numbers, as well as its web site where one exists.

This section also identifies the legislative authority under which the corporation was incorporated and its scheduling under the *Financial Administration Act*. In addition, information is provided on whether or not the corporation is an agent of Her Majesty. A corporation that has agency status enjoys the immunities, privileges and prerogatives that are enjoyed by the Crown and can bind the Crown by its acts.

Sources for this information include the corporation's most recently tabled annual report, as well as its corporate plan and budget summaries covering the previous financial year and those covering the current planning period.

CORPORATE ABSTRACTS

The details include the following:

Mandate and Background

This part explains the reasons for the corporation's establishment and describes the broad policy objectives that guide the corporation's direction.

Products and Services

Each abstract describes the corporation's operations and the main activities that it performs in furtherance of its mandate.

Corporate Highlights

This part outlines the key milestones reached by the corporation during the period. The information may relate to special projects that had been undertaken, the realization of financial targets, or new challenges faced by the corporation as a result of market pressures or changes in the legislative and regulatory framework.

Performance

This part presents information on the corporation's performance – both financial and non-financial.

Corporate Objectives for the Next Planning Period

This part contains a brief overview of the corporation's objectives for the following planning period. The information may include the corporation's financial priorities as well as other strategic considerations, such as issues relating to marketing, the management of human and material resources, and adaptability to technological change.

SUMMARY INFORMATION

The **financial summary** provides five years of comparative financial information showing the corporation's financial position, its operational performance, and the funding received from and payments to Canada. Some of the summary information tables in this document may contain figures that appear to be calculated incorrectly. Readers are advised that, to ensure the greatest possible accuracy, all calculations are based on **actual** figures that are linked in a computer data base. In the summary information tables, however, figures have been rounded. In some tables, the use of rounded rather than actual figures may give the appearance of discrepancy.

Where Crown corporations have re-stated financial data from previous years, readers should be aware that the tables in this report reflect only those changes that are intended to correct errors from previous years. These tables do not reflect amendments made as a result of changes in corporations' accounting policies that have been applied retroactively to financial statements from previous years.

A five-year **employment** history is also provided. In addition, **performance indicators** are provided where they have been included in the annual report of the corporation concerned.

GLOSSARY OF FINANCIAL AND EMPLOYMENT TERMS USED IN THIS REPORT

Financial Position

Total assets: represents all assets reported by the corporation in its audited financial statements.

Loans from private sector: includes short and long-term borrowings, capital leases and any other debt-like instruments. For the marketing boards (Canadian Dairy Commission, The Canadian Wheat Board and Freshwater Fish Marketing Corporation), loans may include payments accruing to farmers, dairy producers and fishers.

Loans from Canada: includes short and long-term borrowings, advances from the Government of Canada for working capital or other purposes, and other debt-like instruments.

Shareholder's equity: represents the equity of Canada. For some corporations, the excess of assets over liabilities is not deemed to be equity of Canada because of the nature of their operations (i.e., marketing boards).

Operations

Revenues: includes revenues from all sources generated by the corporation. The amount includes income from commercial activities and interest income. It would also include the gain on sale of assets and parliamentary appropriations where these are specifically included in revenues by the corporation.

Net income: represents the after-tax income, where applicable, and any extraordinary items. It includes parliamentary appropriations where the corporation has included these in the computation of net income. In some cases, net income is the "excess of parliamentary appropriations over cost of operations" or "excess of proceeds over expenditures." A negative net income (i.e., a net loss) is shown in parentheses.

Funding From Canada

Budgetary: are parliamentary appropriations for capital and operating purposes. The amounts exclude grants and contributions paid to Crown corporations where they qualify as members of a general class of recipients. Budgetary appropriations increase the expenditures of Canada and thus have a direct impact on the amount of the government's surplus or deficit.

Non-Budgetary (loans and investments): represents loans and ownership interests (i.e., contributed capital or share capital) invested by the Government of Canada during the

year. These loans and investments do not have an impact on the government's expenditures as they are recorded as assets of Canada. At the end of the government's fiscal year (March 31), a general provision for valuation is taken in the accounts of Canada on the entire stock of loans and investments to reflect estimated realizable value.

Payments To Canada

Loan repayments: are payments made during the year by the corporation to the Government of Canada on loans outstanding.

Dividends: are dividends declared by the corporation during the fiscal year of the corporation. This figure includes cash recoveries by Canada (where applicable), and other types of payments or contributions made to Canada. Dividends may be paid by the corporation to the Government of Canada before or after the corporation's year end.

Employment

Presents the number of full-time employees obtained from sources such as an annual report, financial statements or a corporate plan and are as at the fiscal year end of the Crown corporation. The employment figure includes the full-time staff, and employees outside of Canada of the parent corporation and its wholly owned subsidiaries. The exceptions are data for the Canada Development Investment Corporation, which relate to the parent corporation only; and data for the four pilotage authorities, which include contract pilots.

ATLANTIC PILOTAGE AUTHORITY

Chairperson and Chief Executive Officer	Captain R. Anthony McGuinness
Head Office	Purdy's Wharf Suite 1402, Tower 1 1959 Upper Water Street Halifax, Nova Scotia, B3J 3N2 Telephone: (902) 426-2550 Facsimile: (902) 426-4004
Incorporation and Status	1972 pursuant to the *Pilotage Act* (R.S.C. 1985, c. P-14); Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The Atlantic Pilotage Authority was created in 1972 to operate, maintain and administer a safe and efficient pilotage service within designated waters in and around the Atlantic provinces.

Products and Services

In addition to providing pilotage services, the authority with the approval of the Governor in Council makes regulations that prescribe the compulsory pilotage areas; the ship or classes of ships that are subject to compulsory pilotage; when compulsory pilotage may be waived; the tariff rates for pilotage; and the classes of licences and classes of pilotage certificates that may be issued.

Of the 30 ports in the four Atlantic regions, 16 are compulsory pilotage areas.

Corporate Highlights

The Authority achieved its goal of financial self-sufficiency for the second consecutive year, ending 1996 with a net income of $636,000.

Transport Canada had advised the authority that, effective April 1, 1996, parliamentary appropriations would no longer be available to the authority to defray any cash operating losses.

In accordance with the *Guidelines for Corporate Governance in Crown Corporations and Other Public Enterprises*, the authority reviews its policies regarding the stewardship of the authority and, where necessary, implements change.

Performance

Overall, total revenue increased by 5 percent from $7.6 million in 1995 to $8.0 million in 1996. New tariffs for compulsory pilotage areas established at the beginning of 1996 played a significant role in the increase in revenue. Cost control practices enabled the authority to maintain a consistent level of expenditure. Total expenses of $7.5 million in 1996 were 0.61 percent lower than in 1995.

In Nova Scotia, the Halifax operation experienced a positive return for the second straight year; however, Cape Breton, which combines Sydney, Bras d'Or and the Strait of Canso, suffered losses due to a decrease in traffic at both Sydney and the Strait of Canso. In New Brunswick, positive returns were achieved in Saint John and the Restigouche area while operating losses continued in the Miramichi area. In Newfoundland and Labrador, an overall positive return was achieved due to the new tariff.

The authority reported 8,576 pilotage assignments. Of these, 8,561 were without incident.

Corporate Objectives for the Next Planning Period

The authority will continue to pursue its efforts to minimize cross-subsidization among areas and, eventually, among ports.

The 1997 tariffs will remain at the same level as in 1996.

The authority is proceeding with the modernization of its pilotage administrative systems and providing the necessary support for the development of a Pilot Interface Project. The latter is a PC-based tool for simulating large ship behaviour in restricted waterways.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	2.6	1.8	1.8	1.8	2.4
Loans from private sector	0.0	0.0	0.1	0.2	0.3
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	1.1	0.5	0.4	0.2	0.7
Operations					
Revenues	8.0	7.6	6.9	6.9	6.5
Net income	0.6	0.1	(0.7)	(0.8)	(1.5)
Funding from Canada					
Budgetary	0.0	0.0	0.9	0.3	1.8
Change in budgetary funding	-100%	-95%	189%	-83%	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	70	70	77	77	75

ATOMIC ENERGY OF CANADA LIMITED

Chairperson	Robert F. Nixon
President and Chief Executive Officer	Reid Morden
Head Office	Minto Place 18th Floor 344 Slater Street Ottawa, Ontario, K1A 0S4 Telephone: (613) 237-3270 Facsimile: (613) 563-9499 Web Site: http://www.aecl.ca
Incorporation and Status	February 14, 1952 under Part I of the *Canada Corporations Act*; continued July 8, 1977 under a certificate, amended July 15, 1982, under the *Canada Business Corporations Act*; Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Ralph E. Goodale, P.C., M.P. Minister of Natural Resources and Minister Responsible for The Canadian Wheat Board
Auditor	Auditor General of Canada Ernst & Young

CORPORATE ABSTRACT

Mandate and Background

Atomic Energy of Canada Limited (AECL) was established in 1952 to undertake research into atomic energy, as well as prepare and develop its commercial applications. AECL operates research and development laboratories at Chalk River, Ontario and at Pinawa, Manitoba, as well as business, engineering and design offices in Ottawa, Toronto and Montreal.

Products and Services

AECL develops, markets and manages the construction of CANDU power reactors and MAPLE research reactors. The CANDU reactor supplies one fifth of Canada's electricity and is an important component of energy programs on four continents.

Corporate Highlights

The Board of Directors has established a Committee on Corporate Governance, and has approved guidelines that will be the foundation of AECL's corporate governance policies and procedures.

In December 1996, the government announced a plan to commercialize AECL's Whiteshell Laboratories at Pinawa, Manitoba. In June 1996, the Whiteshell Task Force, which had been appointed by the federal government to find additional and alternative uses for the Whiteshell site, recommended that AECL's non-CANDU programs at Whiteshell be privatized.

In November 1996, two CANDU 6 reactors were sold to China, bringing AECL closer to achieving its goal of selling 10 CANDU reactors in 10 years. The sale was initiated by the November 1994 Team Canada Trade mission to China, where Canada's Prime Minister and China's Premier signed the first Nuclear Co-operation Agreement.

AECL continued to support Canada's position on the world stage as a proponent of peace and nuclear disarmament, and as a force dedicated to enhancing nuclear safety and safeguards. For instance, AECL has worked closely with Ontario Hydro in assessing the feasibility of MOX (mixed oxide fuel) for CANDU reactors. The CANDU MOX proposal includes the possibility of involving Russia, as part of a trilateral program to have both American and Russian surplus weapons plutonium burned in Canadian reactors under international supervision.

During the period in review, the corporation completed a master infrastructure refurbishment plan. This will include immediate efforts to improve the energy efficiency of AECL buildings as well as a long-term strategy to replace and refurbish major facilities to meet business needs over a 10-year period.

Another milestone was the adoption of the AECL Environmental Protection Program, which encompasses the environmental aspects of the corporation's Canadian operations. This program is based on the environmental management standards of the International Organization for Standardization.

Performance

The corporation's financial results continued to reflect management's focus on the commercial business sector, along with Program Review actions aimed at maintaining a sustainable financial position in the midst of government funding cutbacks. Operating profit from the commercial operations increased to $15 million from $10.7 million in the

previous year. After considering research net expenditures, Program Review costs, and the inclusion of interest and other income, net income for 1996/97 was $15.4 million compared with a net loss of $9.9 million the previous year.

Cost of sales totalled $298 million, compared with $246.4 million in 1995/96 largely reflecting the higher level of project activities. Cost reduction measures and a focused marketing program led to a significant reduction in marketing and administrative expenses as a percentage of revenue, which decreased from 9 percent in 1995/96 to 5 percent in 1996/97.

The corporation's research activities are funded primarily by federal appropriations, cost sharing with the Canadian utilities and commercial contributions. During 1996/97, a new multi-year cost-sharing arrangement was secured with the utilities covering research in support of the CANDU generating stations. Federal appropriations spent on nuclear research and development totalled $167.4 million, compared to $164.3 million in the previous year. As well, cost recoveries from third parties totalled $72.8 million, a reduction of $8.1 million from the previous year. This was due in large part to a reduction in utility support for the Nuclear Fuel Waste Management Program.

Progress continued in the decommissioning program in a number of areas. A comprehensive plan was prepared for the decommissioning of all existing AECL nuclear facilities over a period of 100 years. Total expenditures for decommissioning were $11 million in 1996/97.

Corporate Objectives for the Next Planning Period

AECL is continuing to explore opportunities in key markets throughout the world. The corporation has been working toward having two CANDU 9 units included in Korea's basic construction plan – the first opportunity to build a CANDU 9 reactor abroad. An invitation to bid for Turkey's first nuclear power plant was issued in December 1996. AECL intends to table a competitive bid for two CANDU 6 units by September 1997. In Romania, the first CANDU 6 reactor at the Cernavoda site has been performing well, and work on Cernavoda Unit 2 is in progress.

In an effort to support the marketing of CANDU technology, AECL played host to more than 200 visitors from different countries. Among the active markets seriously considering the nuclear option are Indonesia, the Philippines, Thailand and Vietnam, which are aiming to have nuclear power in place within the next 10 to 15 years.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	1,040.5	993.1	878.2	848.4	1,321.8
Loans from private sector	3.6	5.8	8.6	11.0	13.3
Loans from Canada	12.1	13.5	14.4	15.7	446.1
Shareholder's equity	458.1	464.2	474.1	466.9	605.7
Operations					
Revenues	629.5	581.4	649.0	632.2	645.2
Net Income	15.4	(9.9)	7.2	(138.7)	10.1
Funding from Canada					
Budgetary	197.5	174.6	180.0	173.5	180.3
Change in budgetary funding	13%	-3%	4%	-4%	2%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	1.4	0.9	1.4	430.3	31.1
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	3,675	3,881	3,943	4,287	4,431

BANK OF CANADA

Governor	Gordon G. Thiessen
Head Office	234 Wellington Street Ottawa, Ontario, K1A 0G9 Telephone: (613) 782-8111 Facsimile: (613) 782-8655 Web Site: http://www.bank-banque-canada.ca
Incorporation and Status	1934 by the *Bank of Canada Act* (R.S.C. 1985, c. B-2); acts as the fiscal agent of the Government of Canada; is exempt from Divisions I to IV of Part X of the *Financial Administration Act*.
Appropriate Minister	The Honourable Paul Martin, P.C., M.P. Minister of Finance
Auditor	Caron Bélanger Ernst & Young Coopers & Lybrand

CORPORATE ABSTRACT

Mandate and Background

The Bank of Canada was created in 1934 as Canada's central bank. It is responsible for the formulation and implementation of monetary policy in Canada and acts as the government's fiscal agent. The Bank has the sole right to issue paper currency for circulation in Canada.

Products and Services

The Bank of Canada's primary functions can be grouped into the following four broad categories:

- Monetary policy – monetary policy is concerned with managing the rate of monetary expansion in a way that is consistent with preserving the value of money.
- Central banking services – the Bank carries out activities that support and oversee Canada's principal systems for clearing and settling payments and other financial transactions.
- Bank notes – the Bank is responsible for issuing bank notes in Canada.

- Debt-management services – the Bank advises the government on matters relating to the public debt and is responsible for issuing debt; maintaining bond holder records; and making payments on behalf of the government for interest and debt redemption.

Corporate Highlights

Inflation remained within the Bank of Canada's target range of 1 to 3 percent. The low rate of inflation contributed to a major easing in monetary conditions, and interest rates reached their lowest level in 30 years.

The Bank enhanced the effectiveness and transparency of monetary policy by establishing a new method of setting the Bank Rate, issuing press releases explaining each change in the Bank Rate and initiating plans for the expansion of the Bank's regional presence.

In 1996, the $2 coin replaced the $2 note. This measure will generate annual savings of $7 million in production costs, plus further reductions in distribution and handling costs.

Performance

Low inflation, sounder public sector finances, and a healthier balance of payments have led to a significant drop in domestic interest rates.

Parliament passed legislation giving the Bank formal responsibility for overseeing Canada's key clearing and settlement systems. In addition, to reduce the systemic risks associated with the increasing values and volumes of transactions flowing through Canada's clearing and settlement systems, the Bank is working closely with both private- and public-sector entities to address these risks.

Total 1996 revenue was $1.6 billion, down from $2 billion in 1995. Revenue declined mainly because falling interest rates resulted in a lower average return on federal government securities.

Total operating expenses for 1996 were about 3 percent lower than the 1995 level. Excluding the one-time expenses associated with a modification in the way the Bank accounts for staff benefits, these expenses fell by nearly $9 million, or 5 percent. This is about $30 million below the level recorded in 1994, which is the base year identified in the activity review for measuring progress on achieving efficiency gains.

Corporate Objectives for the Next Planning Period

The Bank will continue to conduct monetary policy in a way that fosters confidence in the value of money. This involves promoting the safety and soundness of Canada's financial system, and supplying bank notes that are readily accepted without concerns about counterfeiting.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	30,584.4	30,200.6	30,049.7	29,045.1	27,441.6
Liabilities:					
Deposits	1,318.9	1,164.5	1,286.0	1,602.0	1,739.0
Notes in circulation	29,109.9	28,777.7	28,328.7	27,236.7	25,609.0
Other	126.4	228.4	405.0	176.0	64.0
Shareholder's equity	30.0	30.0	30.0	30.0	30.0
Operations					
Revenues	1,648.8	2,037.0	1,704.9	1,757.6	2,007.5
Expenses	213.7	220.8	209.2	205.7	201.6
Net revenue - paid to Canada	1,435.1	1,816.2	1,495.7	1,551.9	1,806.0
EMPLOYMENT	1,600	1,968	2,066	2,083	2,128

BUSINESS DEVELOPMENT BANK OF CANADA

Chairperson	Patrick J. Lavelle
President and Chief Executive Officer	François Beaudoin
Head Office	BDC Building Suite 400 5 Place Ville Marie Montreal, Quebec, H3B 5E7 Telephone: (514) 283-5904 Facsimile: (514) 283-7838 Web Site: http://www.bdc.ca
Incorporation and Status	1974 by the *Federal Business Development Bank Act* (R.S.C. 1985, c. F-6) and continued by the *Business Development Bank of Canada Act* (S.C. 1995, chap. 28); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable John Manley, P.C., M.P. Minister of Industry
Auditor	Raymond, Chabot, Martin, Paré and the Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The Business Development Bank of Canada (BDC) was established in 1974 as the Federal Business Development Bank. Its mandate is to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and management services.

In July 1995, Parliament approved the new *Business Development Bank of Canada Act*, which expanded the mandate of the Bank, enabling it to respond more effectively to the needs of Canada's small and medium-sized businesses.

Products and Services

The Bank provides financial assistance to Canadian firms by acting as a complementary lender and a source for equity financing. The Bank offers financial services, venture capital and management support services.

Corporate Highlights

In light of its new mandate, the Bank has moved to strengthen its service offerings to meet the changing needs of its market. The Bank introduced a wide range of new products and services, including the first pan-Canadian seed capital for technology funds, a new financing program for exporters, and a program for youth business start-ups that combines financing with business management mentoring. The Bank also appointed an Aboriginal Banking Unit that focuses on increasing financing for aboriginal-owned small businesses.

The improvement in the Bank's profitability, together with the initiation of a five-year transformation plan for Management Services, led to the Bank's decision to fund those services from internal resources. Consequently, effective September 1996, BDC no longer receives funding from the Government of Canada.

The Bank declared a dividend of $3.4 million on its preferred shares, payable to the Government of Canada.

The Bank noted that it considers effective corporate governance practices to be important, and it reported on the activities of its Governance Committee.

Performance

In 1996/97, the Bank met or exceeded all of its objectives. The Bank set out to increase financing of knowledge-based industries and exporters, without abandoning traditional sectors. The actual share of lending to these targeted businesses was 36 percent, or $418 million in new loans, surpassing its objective of 25 percent. New loans and guarantees authorized amounted to $1,156 million, representing a 14-percent increase in dollar volume over the previous year.

The Bank reported a net income of $50.7 million for the year. This represents an increase of $19.1 million over the $31.6 million net income recorded in 1995/96. The higher net income resulted from increased net interest and investment income related largely to growth in the loans portfolio as well as higher interest spreads, combined with a successful year in Venture Capital Division divestitures.

The Venture Capital Division experienced strong portfolio growth as well as earnings that were higher than normal. Divestitures and lower provision for losses contributed to the Division's 9.8 percent return on equity, which was significantly higher than the corporate objective of 5.5 percent.

Loans Division operating and administrative expenses for 1996/97 were $104.4 million compared to $94.8 million (excluding reorganization charge) for the previous year. The Bank continued to improve both productivity and the quality of customer service while maintaining operating and administrative expenses within the target of 3 percent of the average portfolio.

The Management Services Division increased revenues by 3.3 percent, recording total revenues of $19.8 million. The increase was attributable to an increase in the level of counselling activity. The Division continued to improve its cost-recovery rate, reaching 61.5 percent in 1996/97, versus the corporate objective of 57.1 percent.

Capital assets increased $3.9 million, mostly reflecting the Bank's ongoing relocation of branch facilities to storefront locations to increase the visibility of the Bank.

Corporate Objectives for the Next Planning Period

The Bank will continue to promote and assist in the establishment and development of business enterprises in Canada by providing a wide range of financial and management services tailored to meet the current needs of those businesses.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	4,029.8	3,603.4	3,145.7	3,022.2	2,763.9
Loans from private sector	3,448.1	3,119.6	2,770.6	2,665.2	2,430.3
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	467.6	370.3	288.8	279.6	275.5
Operations					
Revenues	362.7	376.6	328.7	295.3	322.3
Net income	50.7	31.6	9.2	4.1	(24.7)
Funding from Canada					
Budgetary	6.9	14.1	14.2	15.1	15.2
Change in budgetary funding	-51%	-1%	-6%	-1%	0%
Non budgetary (loans and investments)	50.0	50.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	3.4	0.0	0.0	0.0	0.0
EMPLOYMENT	1,066	1,014	967	954	989

CANADA COUNCIL

Chairperson	Donna M. Scott
Acting President and Chief Executive Officer	Joanne Morrow
Head Office	12th Floor 350 Albert Street P.O. Box 1047 Ottawa, Ontario, K1P 5V8 Telephone: (613) 237-3400 Facsimile: (613) 566-4390 Web Site: http://www.canadacouncil.ca
Incorporation and Status	1957 by the *Canada Council Act* (R.S.C. 1995, c. C-2); exempt from Divisions I to IV of Part X of the *Financial Administration Act;* not an agent of Her Majesty. A charitable organization for the purposes of the *Income Tax Act.*
Appropriate Minister	The Honourable Sheila Copps, P.C., M.P. Minister of Canadian Heritage
Auditor	Auditor General of Canada

Mandate and Background

The Canada Council fosters and promotes the study, enjoyment and production of works in the arts.

Products and Services

The Canada Council provides grants to artists and arts organizations directly involved in the creation, production or distribution of the arts in Canada. In addition to its primary role in the arts, the Canada Council administers the Art Bank and an Endowment Fund with a principal amount of $50 million. The council administers the Killam Program of prizes and fellowships to scholars of exceptional ability, offers a number of prestigious prizes in the arts that have been established through private donations, and is responsible for the Public Lending Right program.

Finally, the Canada Council is responsible for the Canadian Commission for the United Nations Educational, Scientific and Cultural Organization (UNESCO), as well as for Canadian participation in various UNESCO activities abroad.

Corporate Highlights

As part of its Strategic Plan, the council set two major financial objectives: 1) to maintain the council's budget of grants to artists and arts organizations; and 2) to reduce administrative costs by almost 50 percent. For the third year in a row, the grant budget remained the same even though the council's parliamentary appropriation decreased.

During the year, the council went through the second phase of the restructuring exercise that was initiated in 1995/96 with a renewed emphasis on creation, production and dissemination. The Arts Division was restructured, programs were streamlined and applications procedures were simplified. Some of the changes to programs included one deadline a year per program, and streamlined application forms for grants to individuals, projects and organizations.

On March 19, 1997, a group of distinguished Canadian artists was invited to Ottawa to represent the arts community at Parliament's special tribute to the Canada Council for the Arts for its 40th anniversary.

Two initiatives for First Peoples artists were launched in the areas of theatre, writing and publishing: 1) *First Peoples Words: Printed and Spoken*, a program intended to foster long-term benefits to First Peoples writers, publishers and storytellers; and 2) *Project Assistance for Infrastructure Support to First Peoples Theatre Organization.*

During the period in review, the council proceeded with the digitization of more than 17,000 works of art by 2,500 Canadian contemporary artists. This resource will be available for research purposes and for use in promoting the rental of the Art Bank's holdings. Other initiatives included a pilot program, *Artists and the Communities,* which is a partnership between various levels of government and the private sector, and the *Fund for Future Generations,* which is similar to a university alumni fund. The fund will provide support for artists embarking on their careers.

Performance

The council's revenues were significantly lower in 1996/97 than in 1995/96. The parliamentary appropriations decreased almost 7 percent to $91.1 million. This was due primarily to the transfer of $3.1 million for the national training schools to the Department of Canadian Heritage, a reduction of $1.8 million as part of the government-wide cut to administrative spending, and a much smaller special appropriation to help defray the costs of restructuring.

Administrative expenditures were reduced by 4.2 percent, mostly as a result of a smaller workforce and lower office accommodation costs.

Corporate Objectives for the Next Planning Period

The Canada Council will continue to secure and provide stable funding and public recognition to professional artists and arts organizations so that they may continue to be a source of pride in the next century.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Assets - Endowment account	200.3	168.2	158.8	155.9	144.9
- Special funds	66.2	55.5	52.6	51.0	49.5
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	232.1	186.4	174.4	171.7	163.1
Operations					
Revenues	112.4	121.2	114.9	113.3	121.5
Outlays on grants, services and art	88.4	88.8	91.7	92.2	100.8
Net income	45.7	12.0	2.1	(1.3)	(0.7)
Funding from Canada					
Budgetary	91.1	95.9	98.4	99.3	108.0
Change in budgetary funding	-5%	-3%	-1%	-8%	2%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	132	161	217	230	234

Canada Deposit Insurance Corporation

Chairperson	Grant L. Reuber
President and Chief Executive Officer	Jean Pierre Sabourin
Head Office	17th Floor 50 O'Connor Street P.O. Box 2340, Station D Ottawa, Ontario, K1P 5W5 Telephone: (613) 996-2081 Facsimile: (613) 996-6095 Web Site: http://www.cdic.ca
Incorporation and Status	1967 by the *Canada Deposit Insurance Corporation Act* (R.S.C. 1985, c. C-3; R.S.C. 1985, c. 18 (2nd Supp.); S.C. 1992, c. 26); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Paul Martin, P.C., M.P. Minister of Finance
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The Canada Deposit Insurance Corporation (CDIC) provides limited insurance for deposits with member institutions – i.e., federal banks, trusts and loan companies, and approved provincial trust and loan companies. CDIC promotes standards of sound business and financial practices for member institutions. It also promotes and contributes to the stability of the Canadian financial system.

Products and Services

CDIC has two primary functions: Insurance and Risk Management, and Claims and Recoveries Insurance. Risk Management encompasses policy deployment, liaison with member organizations and regulators, risk assessment, return of insured deposits, by-laws and member interventions. Claims and Recoveries are accomplished through assisting with interventions, asset management, claims and payout management, depositor

correspondence and communication, litigation, and the supervision of agents and liquidators.

Corporate Highlights

A deposit insurance information by-law was enacted after extensive consultation with member institutions. This by-law will come into effect in 1998.

Substantial progress was made in the development of a new by-law providing for differential deposit insurance premiums. CDIC hopes to enact the by-law in the coming fiscal year and apply it to premium assessments in April 1998.

Performance

For the period ending March 31, 1997, CDIC reported a net income of $124.8 million and an accumulated deficit of nearly $1.18 billion. Operating and capital expenses have remained unchanged for the past four years at approximately $14.5 million.

CDIC changed its methodology for estimating the amount of the provision for insurance losses to reflect a market-based approach. As a result, the provision for insurance losses increased by $350 million.

For the first time, CDIC presented and shared a risk management model with agencies of developing countries involved in deposit insurance and the supervision of financial institutions. The model is used to assess the viability of problem companies and the effectiveness of the institutions' proposed solutions.

During the year, the corporation worked to improve claims and recovery performance through various means. For example, it implemented a process of reviewing each liquidator's performance, and introduced and applied standard estate performance measures. The corporation also developed an automated payment system to calculate and make deposit insurance payments. In addition, recovery incentive plans were developed. For the 1996/97 period, CDIC recovered $362 million from claims and loans. This performance brings the total recoveries since 1991 to approximately $5.6 billion. The following table highlights CDIC's performance for the period.

Key Financial and Performance Indicators	1996/97 Planned	1996/97 Actual	1995/96 Actual
Percent of operating costs to premiums	2.58	**2.5**	2.6
Accumulated deficit ($ million)	1,045	**(1,176)**	(1,301)
Loans from the Consolidated Revenue Fund ($ million)	864	**865**	1,640
General provision for loss ($ million)	400	**500**	150
Net loans and claims receivable ($ million)	776	**693**	902
Provision for guarantees ($ million)	595	**646**	691

Corporate Objectives for the Next Planning Period

CDIC will continue its efforts to eliminate the deficit and borrowings from the Consolidated Revenue Fund. It will also aim to strengthen its capacity for risk assessment, reduce the risk of losses, and improve productivity and cost effectiveness. Other components of the corporation's strategy include maintaining a fair and effective level of human resources, improving accounting and information systems, proposing and assessing public policies, and maintaining close liaison with government and industry.

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	847.4	1,208.9	1,117.2	2,387.6	2,885.2
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	1,640.1	2,174.4	3,177.1	3,715.2
Shareholder's equity	(1,176.2)	(1,301.0)	(1,747.1)	(1,647.7)	(1,450.7)
Operations					
Revenues	560.9	552.6	531.7	409.3	307.9
Net income	124.8	446.2	(99.5)	3.0	(860.7)
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	100.0	250.0	350.0	1,230.0	2,105.0
Payments to Canada					
Loan repayments	872.0	783.0	1,341.0	1,729.0	270.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	88	86	87	90	94

Canada Development Investment Corporation

Chairperson	Donald McQ. Shaver
Head Office	Aetna Tower Suite 3000 P.O. Box 270 Toronto, Ontario, M5K 1N2 Telephone: (416) 864-0333 Facsimile: (416) 864-0289
Incorporation and Status	1982 by the Canada Development Investment Corporation under the *Canada Business Corporations Act*. Letters patent, May 26, 1982; Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Paul Martin, P.C., M.P. Minister of Finance
Auditor	KPMG and the Auditor General of Canada

Corporate Abstract

Mandate and Background

The Canada Development Investment Corporation was incorporated in 1982 to manage Crown corporations and investments assigned to it, and to privatize its holdings when appropriate. In January 1995, the government completed an assessment of the corporation's future role. As a result, the corporation's current mandate is to wind down its operations by divesting its assets and reducing its operating costs.

Products and Services

Canada Development Investment Corporation manages its wholly owned subsidiaries: Canada Eldor Inc., Theratronics International Limited and Canada Hibernia Holding Corporation. The latter manages the federal government's 8.5-percent interest in the Hibernia Oil and Gas Offshore Development Project.

Canada Development Investment Corporation is also responsible for the administration of outstanding issues pursuant to prior divestitures, including the sale of the operating assets of Eldorado Nuclear Ltd. (now Canada Eldor Inc.), Canadair Limited and Nordion International Inc. These issues include certain waste contingencies and outstanding litigation.

Corporate Highlights

The 1996 Budget reaffirmed the government's commitment to privatizing Theratronics and indicated that the sale would be initiated when the company's operations warrant.

In July 1996, the federal government announced its intention to negotiate, with the Town of Deep River, an agreement to construct a low-level radioactive waste disposal site in the town. Although discussions with the Town of Deep River may continue in 1997, the town has declared the initial agreement null and void, and it has withdrawn its offer to host the facility.

In August 1996, the corporation's 1,250,000 Class II convertible preferred shares in Varity were redeemed at $25 per share. The proceeds were paid by way of a dividend to Canada in October 1996.

Performance

The corporation made significant progress in divesting its assets and reducing its operating costs during 1996. The main achievements include the following:

- The Cartierville Financial Corporation Inc. was dissolved as of June 1996; and
- With respect to the Canadair sale agreement, all but one indemnity has expired. The remaining indemnity, which relates to insurance obligations, expires in 2001.

During 1996, the corporation did not borrow from the federal government, nor did it receive any appropriations. Dividends paid by the corporation to the government during the year amounted to $31.25 million.

Corporate Objectives for the Next Planning Period

The corporation's main objectives for 1997 are to continue to manage its investments and develop approaches to the divestiture of its remaining assets. The Board of Directors has taken actions to reduce operating costs to a minimum as soon as possible. These actions include the termination of all remaining employees in 1997. The board will continue to manage the corporation with the assistance of contractors.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	124.0	140.3	126.4	181.9	278.4
Loans from private sector	0.0	0.0	0.0	461.7	584.3
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	98.9	114.0	98.3	(318.2)	(357.8)
Operations					
Revenues	4.7	5.6	6.2	14.4	5.3
Net income	16.2	25.7	(21.8)	(32.7)	(67.2)
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	31.3	10.0	10.0	7.7	21.5
EMPLOYMENT	3	3	8	9	9

CANADA LANDS COMPANY LIMITED

Chairperson	Jon K. Grant
President and Chief Executive Officer	Erhard Buchholz
Head Office	Suite 1500 200 King Street West Toronto, Ontario, M5H 3T4 Telephone: (416) 974-9700 Facsimile: (416) 974-9661 Web Site: http://www.clc.ca
Incorporation and Status	1956 by letters patent; reorganized under the *Canada Business Corporations Act*, September 19, 1977. Certificate of Continuance under the *Canada Business Corporations Act,* July 7, 1981; Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.
Appropriate Minister	The Honourable Alfonso Gagliano, P.C., M.P. Minister of Public Works and Government Services
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

Canada Lands Company Limited (Canada Lands) was reactivated in 1995, and has the mandate to dispose of surplus federal real properties in order to maximize value to the Canadian taxpayers.

As part of the commercialization of the Canadian National Railway Company (CN), Canada Lands acquired, effective August 31, 1995, all of the shares of Canada Lands Company CLC Limited (CLC) and CN Tower Limited (CNT). Prior to that date, the corporation was inactive and had only nominal assets and share capital.

Products and Services

Canada Lands' principal function is the orderly disposal of surplus federal real properties. Its secondary function is to manage certain strategic assets, such as the CN Tower and the

former CFB Downsview lands in Toronto. Its business activities are carried out through two wholly owned subsidiaries: CLC and CNT. The other active subsidiary is the Old Port of Montreal Corporation Inc. This subsidiary reports separately to Parliament and produces its own annual report.

Corporate Highlights

During the period in review, major sales included the company's interest in the Midtown Plaza Shopping Centre in Saskatoon and the land lease for 800 René Levesque Boulevard in Montreal.

In February, Canada Lands opened a project office on the decommissioned military base at Currie Barracks in Calgary.

In the area of the environment, Canada Lands has been commended for a number of its activities, such as the application of sustainable development practices at its Glenlyon Business Park in Burnaby, British Columbia; for energy conservation at Toronto's CN Tower; and for a comprehensive environmental remediation program at its Kempt Road site in Halifax, Nova Scotia.

Performance

For the first full year of operations, Canada Lands had revenues of $226.8 million, a net income before tax of $20.2 million, and generated cash of $22.2 million before distributions to the federal government. As the comparative period for 1995/96 comprised the first seven months of the corporation's reactivated operations, it was to be expected that the 1996/97 results would show considerable improvement.

During the period in review, the company sold 50 properties for proceeds of $143 million. This included 27 percent of the initial inventory transferred to the company as part of the commercialization of CN.

During the year, the company completed construction of the Ballard Power Systems building and the new head office of Future Shop at its Glenlyon Business Park in Burnaby.

In an effort to develop public- and private-sector initiatives, the company launched a Request for Proposals in late 1996 for the redevelopment of CityPlace in Toronto, which includes the CN Tower base lands and other adjoining properties.

In June 1996, the company distributed $10.9 million to the federal government through a reduction of capital stock. In addition, the company repaid to the federal government $0.9 million relating to a debt due in 2002.

Corporate Objectives for the Next Planning Period

The major strategic issues facing the company in the coming years are:

- Improving the Crown property transfer process;
- Progress on First Nations' interests in lands in British Columbia;
- Completion of the CityPlace land sale and the CN Tower lease agreements; and
- Conclusion of the Request for Proposals process for the Downsview decommissioned military base.

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	403.8	394.9	0.0	0.0	0.0
Loans from private sector	42.4	63.5	0.0	0.0	0.0
Loans from Canada	37.1	0.9	0.0	0.0	0.0
Shareholder's equity	249.6	250.1	0.0	0.0	0.0
Operations					
Revenues	226.8	78.8	0.0	0.0	0.0
Net income	10.4	0.5	0.0	0.0	0.0
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	37.1	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.9	0.0	0.0	0.0	0.0
Dividends	10.9	0.0	0.0	0.0	0.0
EMPLOYMENT	325	340	0	0	0

CANADA MORTGAGE AND HOUSING CORPORATION

Chairperson	Peter R. Smith
President and Chief Executive Officer	Marc W. Rochon
Head Office	700 Montreal Road Ottawa, Ontario, K1A 0P7 Telephone: (613) 748-2000 Facsimile: (613) 748-2067 Web Site: http://www.cmhc-schl.gc.ca
Incorporation and Status	1946 by the *Central Mortgage and Housing Corporation Act*; (R.S.C. 1985, c. C-7; amended March 16, 1979 to *Canada Mortgage and Housing Corporation Act*; Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty except when s.14 of its Act applies.
Appropriate Minister	The Honourable Alphonso Gagliano, P.C., M.P. Minister of Public Works and Government Services
Auditor	Mallette Maheu (Associated with Arthur Andersen) Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The Canada Mortgage and Housing Corporation (CMHC) was incorporated in 1946 to promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions.

Products and Services

CMHC accomplishes its mandate through activities in three business components:

- Within the **Corporate Account**, CMHC manages a portfolio of loans and investments under the provisions of the *National Housing Act* (NHA), develops and sells land holdings, and provides housing related services. Funding is provided by

borrowings from the private sector and was provided, in the past, by the Government of Canada.

- The **Minister's Account** administers subsidized housing programs under the provisions of the NHA. CMHC is reimbursed for contributions and related operating expenses through parliamentary appropriations of almost $1.9 billion per year. About 90 percent of the contributions are committed for some 35 years to subsidize social housing programs.
- The **Insurance and Guarantee Funds** are administered by CMHC under the provisions of the NHA. The Mortgage Insurance Fund provides insurance against borrower default on residential mortgage loans. The Mortgage-backed Securities Guarantee Fund guarantees timely payment of the principal and interest for investors of securities based on insured mortgages.

Corporate Highlights

In response to changes in its mandate, CMHC launched a process of organizational renewal to enhance the efficiency of its operations and the quality of service to Canadians. In addition, CMHC established a Corporate Governance Committee.

In February 1996, CMHC signed the first Agency Agreement under the CMHC/Aboriginal Capital Corporations Pilot Project to help aboriginal groups acquire housing finance expertise.

CMHC commenced discussions with the provinces and territories to transfer federal management responsibilities in social housing. The first agreement was signed with Saskatchewan.

CMHC officially introduced *emili,* its automated mortgage underwriting system.

Performance

In 1996 the Corporate Account recorded a net loss of $6.6 million compared to a planned net income of $1.8 million. This variance was due to a $5.2 million loss on real estate following revaluation adjustments of some properties in Ontario and Quebec as a result of soft market conditions. CMHC's direct lending for social housing added $2 billion to the loans and investment portfolio.

CMHC helped a record number of households in all parts of Canada to buy homes. With the assistance of NHA Mortgage Insurance, 355,009 units were purchased. This represents 42 percent of all Canadian mortgages underwritten in 1996, compared to 41 percent in 1995. The First Home Loan Insurance Program continued to be popular in 1996, assisting 138,480 first-time homebuyers across Canada. CMHC also provided NHA Mortgage Insurance for 60 percent of the multiple unit mortgage market.

In 1996, the federal government provided $1.9 billion through CMHC to help Canadians with disabilities, victims of family violence, low-income households, aboriginal

Canadians and seniors. Unilaterally or in partnership with the provinces, CMHC subsidized more than 656,000 units of social housing in 1996. Funding for housing units on Indian Reserves provided for 2,407 new units. A total of $105 million was allocated to short-term housing initiatives. Other federal funding was provided for research into improving housing conditions and supporting the housing market. The following table highlights the performance measures reported for the period.

Performance Measures	1996 Actual	1996 Planned	1995 Actual
Corporate Account ($ million)			
Net income (loss)	**(6.6)**	1.8	(8.6)
Real estate sales	**17.0**	56.8	11.8
Gain on real estate	**(5.2)**	18.7	1.6
Minister's Account			
Social housing units committed	**13,967**	17,080	16,427
Units under administration	**656,587**	671,007	664,235
Insurance Guarantee Funds			
Mortgage Insurance Fund			
Units insured	**355,009**	276,477	274,834
Net income (loss) ($ million)	**10.0**	79.0	86.1
Insurance in force ($ billion)	**131.0**	125.4	117.6
Mortgage-backed Securities Guarantee Fund			
Securities issued ($ billion)	**1.7**	3.2	1.6

Corporate Objectives for the Next Planning Period

To fulfil its renewed mandate, CMHC will continue to become more client-focused, innovative and entrepreneurial. Through transfer agreements that are currently being negotiated with the provinces and territories, CMHC will continue to be responsible for federal social housing funding. The corporation will also continue to help aboriginal Canadians to become more self-sufficient in developing and maintaining their housing.

CMHC will work towards enhancing its research and information dissemination activities with increasing emphasis on revenue generation. The corporation will work closely with the housing industry to support and promote the export of housing products and expertise.

The 1996 Budget announced the federal government's intention to operate the Mortgage Insurance Fund and the Mortgage-Backed Securities Guarantee Fund on a more commercial basis. Subject to amendments to the *National Housing Act* and the *CMHC Act*, renewal of these funds will give the corporation the flexibility that it needs to respond better to market changes, improve efficiency, compete more effectively in the marketplace, and maximize the financial self-sufficiency of the funds while maintaining a public policy role.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	15,098.0	13,849.4	11,768.9	10,013.6	8,741.4
Loans from private sector	7,605.4	5,999.8	3,444.7	1,345.2	37.2
Loans from Canada	7,118.5	7,512.7	7,972.2	8,306.1	8,496.3
Shareholder's equity	28.6	35.1	43.7	50.0	50.0
Operations					
Revenues	1,146.3	1,035.6	877.5	800.2	743.0
Net income	(6.6)	(8.6)	(6.3)	5.6	11.8
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	263.4	306.5
Payments to Canada					
Loan repayments	409.9	447.4	334.2	453.6	439.5
Dividends	0.0	0.0	0.0	5.6	4.9
MINISTER'S ACCOUNT					
Operations					
Expenditures	1,944.6	2,001.9	1,868.0	1,935.0	1,950.0
Budgetary appropriations	1,968.1	1,952.5	1,879.6	1,899.6	1,907.1
Change in budgetary funding	1%	4%	-1%	0%	-4%
Due from the Minister	278.1	301.6	252.3	264.0	228.0
ADMINISTERED FUNDS					
Financial Position					
Total assets	2,548.2	2,317.8	2,093.1	1,844.2	1,599.4
Shareholder's equity	47.6	44.0	(48.8)	38.4	106.8
Operations					
Revenues	557.0	544.9	432.0	436.5	366.4
Net income	16.6	92.8	(87.2)	(56.9)	(12.1)
EMPLOYMENT	2,565	2,824	3,032	2,975	2,955

CANADA PORTS CORPORATION

Chairperson	Carole Taylor
President and Chief Executive Officer	Neil MacNeil
Head Office	8th Floor 99 Metcalfe Street Ottawa, Ontario, K1A 0N6 Telephone: (613) 957-6787 Facsimile: (613) 996-9629
Incorporation and Status	1983 pursuant to the *National Harbours Board Act* (R.S.C. 1970, N-8, s.3); reconstituted by the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act;* an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Arthur Andersen & Co.

Mandate and Background

The Canada Ports Corporation (CPC) was established in 1983 to administer, manage and control Canadian harbours, and any other harbour, work or property of Canada transferred by the Governor in Council.

Products and Services

CPC co-ordinates the national port activities of seven autonomous local port corporations, which are reported separately in this Report. It has direct responsibility for operating eight non-corporate divisional ports and has a wholly owned subsidiary, Ridley Terminals Inc. In addition, CPC administers the Interport Loan Fund to provide an alternative source of financing for financially viable projects.

Corporate Highlights

In 1996, CPC's resources were focused on the corporate transition set in motion by the introduction of Bill C-44, the Canada Marine Act, and the continuing necessity to manage the corporation on a commercial basis under its existing legislative basis. Bill C-44 died on the order paper with the April 1997 dissolution of Parliament. On October 2, 1997, the Minister of Transport re-introduced the proposed legislation in the House of Commons as Bill C-9.

In 1996 CPC invested a net $11.9 million in the construction of new facilities and the improvement of existing facilities: $8.7 million at the Port of Belledune and $2.4 million at the Port of Sept-Îles.

PORTS CANADA SYSTEM

Divisional Ports:
Port of Belledune
Port of Churchill
Port Colborne
Port of Prescott
Port Saguenay/Baie des Ha! Ha!
Port of Sept-Îles
Port of Trois Rivières

Subsidiary
Ridley Terminals Inc.

Local Port Corportions:
Halifax Port Corporation
Montreal Port Corporation
Port of Quebec Corporation
Prince Rupert Port Corporation
Saint John Port Corporation
St. John's Port Corporation
Vancouver Port Corporation

Performance

During 1996, CPC continued efforts to improve the financial and operational performance of the divisional ports and Ridley Terminals Inc. (RTI). In brief, the divisional ports excluding RTI handled a total of 31.2 million tonnes of cargo – a 3-percent decrease from the 32.2 million tonnes reported in 1995. This total represented 17 percent of the 185.2 million tonnes handled by the Ports Canada system in 1996, which has been fairly constant in recent years.

With RTI traffic and that of the divisional ports combined, total CPC traffic was 36.5 million tonnes in 1996, down 4 percent from the 38.1 million tonnes handled in 1995. Total shipments through RTI. fell to just under 5.3 million tonnes in 1996, a decrease of 11 percent from the 6.0 million tonnes handled in the previous year.

Revenue of $59 million from operations and operating expenses of $33.3 million were both down 2 percent from their 1995 levels. The drop in revenue was due to the production difficulties of a major RTI customer. RTI generated 58 percent of CPC's operating revenues. The decline in operating expenses was mainly attributable to a decrease in RTI's equipment repairs expenses. CPC's net income increased by $1.9 million from 1995. This increase was due to a government grant of $1 million to the Port of Churchill and to the fact that there were no workers' compensation benefit expenses at the Port of Prescott and Port Colborne compared to $0.5 million and $0.7 million respectively in 1995.

In 1996, CPC paid a dividend to Canada of $316,000 in respect of its 1995 financial results. This forecast payment in 1997, based on CPC's 1996 financial performance, is approximately $377,000.

Corporate Objectives for the Next Planning Period

The Canada Ports Corporation's major objectives are to protect current markets and develop new ones, ensure the financial viability of the divisional ports, and improve its competitive position relative to other Canadian and U.S. ports. The Canada Ports Corporation will also work to maintain high quality service connections with rail, truck and other transport modes; and maintain partnerships with port community stakeholders.

The corporation will participate in structural changes to the management of Canadian ports and encourage favourable legislative, regulatory and policy reforms. In addition, it intends to enhance its relationship with the federal government, support federal environmental legislation, and work towards achieving sustainable development. Other priorities will include improving the perception of Ports Canada ports, and the efficient and cost-effective delivery of Protective Services.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	271.6	264.7	249.6	247.0	217.9
Loans from private sector	171.4	179.4	185.5	196.0	191.5
Loans from Canada	0.4	0.4	0.5	0.5	0.6
Shareholder's equity	12.1	3.2	(9.0)	(16.1)	(51.8)
Operations					
Revenues	64.0	62.6	64.3	58.0	56.3
Net income	13.2	9.8	5.3	10.5	11.8
Funding from Canada					
Budgetary	1.0	0.0	0.0	0.0	12.8
Change in budgetary funding	-	-	-	-100%	-86%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	20.0
Payments to Canada					
Loan repayments	0.1	0.1	0.1	0.1	0.6
Dividends	0.3	0.2	0.2	0.1	0.0
EMPLOYMENT	253	253	280	281	218

CANADA POST CORPORATION

Chairperson	The Honourable André Ouellet, P.C.
President and Chief Executive Officer	Georges C. Clermont
Head Office	Canada Post Place 2701 Riverside Drive Ottawa, Ontario, K1A 0B1 Telephone: (613) 734-8440 Facsimile: (613) 734-6022 Web Site: http://www.mailposte.ca
Incorporation and Status	1981 by the *Canada Post Corporation Act* (R.S.C. 1985, c. C-10); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Alfonso Gagliano, P.C., M.P. Minister of Public Works and Government Services
Auditor	Deloitte & Touche

CORPORATE ABSTRACT

Mandate and Background

Canada Post is mandated to operate Canada's postal service on a self-sustaining basis with a standard of service that meets the needs of Canadians.

The corporation is one of the largest users of transportation services in Canada. It has a 75-percent interest in PCL Courier Holdings Inc., which owns all of the shares of Purolator Courier.

The federal government compensates Canada Post for postal services that are provided at less than cost pursuant to government measures to support the publishing industry and other programs, such as northern parcel mail, parliamentary free mail, and blind persons' free mail.

Products and Services

Canada Post delivers mail to 12.5 million Canadian addresses and provides postal services through a postal network of more than 20,000 retail points of purchase.

Messages and parcels are processed through a network of 22 major mail processing plants.

As well, it provides courier services and markets its business solutions to better manage its postal business to other postal administrations.

Corporate Highlights

Canada Post Corporation processed 10.9 billion pieces of mail in 1996/97, a decrease of 908 million pieces over the previous year.

In July 1996, the corporation sold its investment in an international courier joint venture, GD Express Worldwide N.V., for proceeds of $47 million, yielding a gain of $9 million and a further recovery of a $5 million write-down taken in March 1995.

The corporation has undertaken a program to identify cost-reduction opportunities. These opportunities exist primarily in the mail collection and delivery aspect of Canada Post's operations. In addition to simplification initiatives in the physical distribution market, the corporation has identified ways to decrease costs and increase volumes by simplifying a wide range of other service offerings and by eliminating duplication between those offerings.

On January 1, 1997, the corporation discontinued its Economy Unaddressed Admail service. This decision was based on a recommendation flowing from the Canada Post Mandate Review.

Performance

The corporation reported a net income of $112.5 million in 1996/97 compared to $28 million in the previous year. This amount exceeded the 1996/97 target by $5.5 million. Of the $112.5 million, $17 million represented the operations of Purolator.

The corporation operates in three principal markets and records its revenues along three market lines: 1) communications; 2) advertising; and 3) physical distribution.

Revenues from communications (lettermail, electronic and hybrid services) were $2.273 billion compared to $2.286 billion in the previous year, which represents a 1.8 percent increase*. This growth was due primarily to rate increases implemented in 1995/96.

Advertising revenues amounted to $832 million compared to $805 million in the previous year, which is equivalent to a 5.8-percent increase*. The corporation's service offerings in this area include Economy and Premium Unaddressed Admail, Addressed Admail and Publications Mail. The loss of revenues associated with the exit from Economy Unaddressed Admail was more than offset by gains in the Addressed Admail portion of the market, which amounted to $45 million or 14.2 percent* over 1995/96 levels.

In the physical distribution market, the corporation reported revenues of $806 million compared to $813 million in the previous year, which is equivalent to an increase of 1.5 percent*. Although Regular Parcel volumes grew by 1.8 percent*, an unfavourable product mix reduced the average revenue per piece by 2.5 percent. Priority Courier volumes declined 1.5 percent* in a highly competitive, price sensitive industry. Revenues from Xpresspost, another expedited service, grew by 15.5 percent*, reflecting the successful positioning of this service as a more economical alternative to next-day courier services.

Purolator experienced revenue growth of 10.3 percent* with operating revenues of $760 million. This revenue increase was due primarily to volume growth of 8.4 percent* while revenue per shipment grew 1.1 percent. The volume growth was attributed to increased volumes from existing customers, new accounts, the introduction of a new same-day service, and the expansion of Purolator's ground service from the U.S.

Canada Post's consolidated operating expenses in 1996/97 increased 2.6 percent* to $4.944 billion. Labour costs continued to represent the largest portion of this amount.

Corporate Objectives for the Next Planning Period

Canada Post intends to continue examining ways to simplify its service offerings and to provide products and services that respond to the customer's business and communication needs.

The corporation expects some expansion of its offerings in the communications market. Overall, the communications market is expected to expand; however, the corporation anticipates only modest growth in the lettermail segment of this market. Dominant users of lettermail services, such as banks, governments and utilities, will continue to favour electronic alternatives where such alternatives are perceived to be more cost-effective. In the foreseeable future, however, Canada Post expects to retain a significant share of the communications market due to the competitive advantage that it enjoys as a result of its comprehensive national network.

The corporation's marketing efforts in the advertising market will focus on its Addressed Admail and Premium Unaddressed Admail services. It is anticipated that these services will be a source of continued growth.

Volume increases for Purolator are expected to be derived from general economic growth, new accounts, expansion of shipments to and from the United States, and growth in new service offerings such as same-day delivery.

The corporation is not expecting to incur any major capital expenditures in the near future. Both Canada Post and Purolator make extensive use of operating leases for their facilities, vehicles and computers.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March					
Financial Position					
Total assets	2,725.8	2,515.4	2,564.6	2,612.8	2,494.1
Loans from private sector	175.6	199.0	199.0	199.0	55.0
Loans from Canada	80.0	80.0	80.0	80.0	80.0
Shareholder's equity	1,128.7	1,026.2	998.0	1,066.9	1,337.3
Operations					
Revenues	5,103.1	4,953.5	4,748.0	4,115.6	3,920.7
Net income	112.5	28.2	(68.9)	(270.4)	25.6
Funding from Canada					
Budgetary	14.0	14.0	14.0	14.0	14.0
Change in budgetary funding	0%	0%	0%	0%	-88%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	10.0	0.0	0.0	0.0	0.0
EMPLOYMENT	43,831	44,107	43,871	43,699	44,683

*Year-over-year percentages are calculated on the basis of fiscal years or reporting periods of equal length. The absolute figures have not been adjusted to reflect unequal fiscal years or reporting periods of different segments of the corporation (i.e., Canada Post and Purolator). Canada Post's 1996/97 fiscal year was 52 weeks and in 1995/96 it was 53. Conforming Purolator's reporting period to Canada Post's fiscal year resulted in 53 weeks for the 1996/97 fiscal year and 52 weeks for 1995/96.

CANADIAN BROADCASTING CORPORATION

Chairperson	Guylaine Saucier
President and Chief Executive Officer	The Honourable Perrin Beatty, P.C.
Head Office	250 Lanark Avenue P.O. Box 3220, Station C Ottawa, Ontario, K1Y 1E4 Telephone: (613) 724-1200 Web Site: http://www.cbc.ca
Incorporation and Status	Established by the 1936 *Canadian Broadcasting Act* and continued by the 1958, 1968 and 1991 Broadcasting Acts (R.S.C. 1991, c. 11); exempt from Divisions I to IV of Part X of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Sheila Copps, P.C., M.P. Minister of Canadian Heritage
Auditor	Auditor General of Canada

Mandate and Background

The Canadian Broadcasting Corporation (CBC) is Canada's national public broadcaster. Its mission is to inform, entertain and enlighten; to contribute to the development of shared national consciousness and identity; to reflect the regional and cultural diversity of Canada; and to contribute to the development of Canadian talent and culture.

Products and Services

The CBC produces, procures and distributes Canadian programming in English, French and a number of aboriginal languages. It also offers a selection of programs from around the world. The corporation's program services include:

- two main television networks, one English and one French, that offer general and special interest programs;

- four main radio networks, two English and two French, that offer information and general interest programs as well as classical music and cultural programs;
- two all-news and information television networks that are entirely financed by cable subscriptions and advertising revenue. The English network is called CBC Newsworld, and the French one is called Le Réseau de l'information (RDI);
- radio and television services to the North in English, French and eight aboriginal languages.

On behalf of the Government of Canada, CBC also provides an international shortwave radio service, Radio Canada International, which broadcasts programs in seven languages.

In partnership with Power Broadcasting, CBC operates Newsworld International and Trio. Newsworld International combines CBC Newsworld programming with newscasts and documentaries from around the world. Trio is a family entertainment channel that features programming acquired from the CBC and other Canadian producers. Both of these specialty services are distributed by satellite to homes throughout the United States.

In December 1995, the Canadian Radio-television and Telecommunications Commission (CRTC) granted the CBC a licence to operate a new pay audio service called Galaxie, which will initially provide 30 channels of commercial-free music, 24 hours per day, seven days per week. By the end of 1996/97, CBC had signed an agreement with a direct broadcasting service that will carry Galaxie on its basic tier as early as the fall of 1997.

CBC programs are distributed via satellite in combination with microwave and landline, feeding 90 CBC-owned stations, 1,163 CBC rebroadcasters, 30 private affiliated stations and 293 affiliated or community-owned rebroadcasters and stations.

Corporate Highlights

The CBC Board of Directors continued to evaluate its corporate governance processes in light of the federal government's guidelines for Crown corporations. The Board's Governance Committee is focused on enhancing corporate performance, assessing and making recommendations regarding corporate values and board effectiveness, and establishing a process for developing criteria for the selection of board directors. Also, to improve Board effectiveness, the corporation established an approval process and tracking mechanism for its strategic direction and corporate plan. It also improved the internal communication process, and developed a method for assessing the President and Chief Executive Officer's performance on a yearly basis.

The corporation applied to the CRTC to transfer to the FM band certain AM stations to give listeners an improved signal and better access to CBC's unique and diversified programming. The CRTC heard the application in the spring of 1997 and has since approved the new FM licences for Montreal and Toronto.

In December 1996, the Minister of Canadian Heritage renewed the government's commitment to Radio Canada International and guaranteed one year of funding for the service. In February 1997, the Minister announced $10 million of additional annual funding for CBC's French and English language radio services starting April 1, 1997.

With the Canadianization of the English Television prime-time schedule in the fall of 1996, prime-time Canadian content during the regular season reached 88 percent. In 1996/97, average prime-time Canadian content reached 85 percent, which represents an increase of two percentage points over the previous year.

CBC's coverage of the 1996 Olympic Games in Atlanta averaged 14 hours per day for 17 consecutive days. This main network coverage was supplemented by special highlights packaged on CBC Newsworld and RDI. The quality and style of the coverage were critically acclaimed.

Canadian content on CBC's French Television remained steady at 84 percent during prime time and 76 percent overall. Its share of francophone viewing over the full day increased from 19 percent in 1995/96 to 20.7 percent in 1996/97; its prime-time audience share increased from 23.5 percent to 24.9 percent.

Newsworld reaches over 7.4 million cabled homes and is available more widely than any other cable network in Canada. Its average weekly reach for the 1996/97 season was seven million viewers, which represents an audience share of 1.2 percent.

RDI aired more than 500 live specials covering major events of interest to Canadians at home and abroad. RDI is now accessible to 6.75 million cable subscribers in Canada of whom 1.75 million are in Quebec.

CBC programs and personalities received hundreds of awards and prizes during 1996/97, including 46 Geminis by English Television and 14 Gémeaux by French Television's in-house productions.

CBC continued to expand its presence on the Worldwide Web.

Performance

During the fiscal year in review, the corporation met its planned financial reduction targets and was able to advance other reductions that were planned for subsequent years. CBC's operating surplus of $34.5 million will be carried forward into the new fiscal year and used to manage any slippage in the implementation of its incremental 1997/98 funding reduction of $118 million.

Total operating expenses, excluding items netted out of revenue, downsizing costs and taxes, decreased by 7.3 percent or $96.4 million – i.e., from $1.316 billion in 1995/96 to $1.219 billion in 1996/97. This decrease resulted primarily from the streamlining of administrative operations and the achievement of other operating efficiencies.

Corporate Objectives for the Next Planning Period

The corporation will continue to provide, to national and regional audiences, radio and television services in both official languages incorporating predominantly and distinctively Canadian programs. It intends to complete the Canadianization of English Television by the fall of 1998.

In French Television, a key goal will be to continue to give priority to strong cross-Canada news and information, anchored in the regions. Another objective is to broaden collaboration with independent producers and define the corporation's strategy more clearly, as both producer and broadcaster.

Another priority will be to direct the $10 million in additional funding for CBC's French and English language radio services towards talent development, regional reflection and future growth into new media. Finally, the corporation intends to implement in 1997/98 and 1998/99 the reductions required to meet the lower resource levels forecast for future years.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	1,664.7	1,696.7	1,613.0	1,582.0	1,582.8
Loans from private sector	405.1	411.9	433.6	435.3	436.1
Loans from Canada	0.0	0.0	0.0	33.0	33.0
Shareholder's equity	758.0	680.2	738.6	756.8	774.3
Operations					
Revenues	1,138.0	1,258.4	1,362.6	1,329.1	1,330.9
Net Income	(23.0)	(159.8)	(193.7)	(152.4)	(76.4)
Funding from Canada					
Budgetary	997.1	1,170.7	1,126.9	1,089.5	1,109.7
Change in budgetary funding	-15%	4%	3%	-2%	8%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	33.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	7,311	8,181	9,015	9,117	9,337

CANADIAN COMMERCIAL CORPORATION

Chairperson and President	Robert G. Wright
Head Office	Metropolitan Centre Suite 1100 50 O'Connor Street Ottawa, Ontario, K1A 0S6 Telephone: (613) 996-0034 Facsimile: (613) 992-2121 Web Site: http://www.ccc.ca
Incorporation and Status	1946 by the *Canadian Commercial Corporation Act* (R.S.C. 1985, c. C-14); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Sergio Marchi, P.C., M.P. Minister for International Trade
Auditor	Auditor General of Canada

Mandate and Background

The Canadian Commercial Corporation (CCC) assists in the development of trade between Canada and other nations by facilitating sales to foreign governments and international agencies and other approved buyers on behalf of Canadian suppliers. The corporation normally assumes the role of a prime contractor, undertaking to deliver a product or service to the foreign customer with a "back-to-back" obligation from a Canadian supplier.

Products and Services

CCC offers a wide range of export support services to Canadian exporters, providing them with special access to foreign markets and enhancing their credibility by guaranteeing contract performance.

Corporate Highlights

Thirty percent of companies using CCC's services were new to the corporation. Diverse in size, product range and market interests, these firms are increasing CCC's client base.

Through its Bid Matching Service, CCC identified over 39,000 U.S. government opportunities open to Canadian bidders and made them accessible to all Canadian firms on the government's Open Bidding System.

In keeping with changes in U.S. purchasing procedures, CCC offers Canadian suppliers a new window to U.S. buyers through Electronic Data Interchange.

During the year, CCC scored its largest percentage growth to date in its involvement in transactions with private sector clients. CCC's participation in sales to the private sector now comprises approximately 12 percent of its business volume.

Performance

The following table highlights the results achieved against planned objectives for the period that reflect CCC's strategy to increase Canadian exports and the number of Canadian firms exporting successfully.

Performance Indicators	1995/96 Actual	1996/97 Target	1996/97 Actual
Business volume ($ million)	1.01	1.5	**859**
Clients served	1,050	1,250	**1,310**
Companies signing contracts	308	550	**288**
Additional contract costs as a percentage of business volume (%)	1.1	0.2	**0.1**
Provision for doubtful accounts compared to accounts receivable (%)	1.3	1.5	**0.9**
Time required to make payments to exporters (days)	29	30	**26**
Total cost of operations compared to business volumes (%)	1.3	1.1	**1.6**

The lower business volume in 1996/97 was affected by a major contract that was signed in 1996/97 but could not be reported until 1997/98 because of the foreign buyer's approval processes. Although fewer companies signed contracts through CCC this year, a record 1,310 Canadian firms made use of CCC's services. The reduction in signed contracts resulted from decreases in the corporation's international business, particularly with UN agencies.

In 1996/97, the corporation reported contract losses of 0.1 percent of business volumes compared to its standard of 0.2 percent. In addition, CCC reduced its total cost of operations to $13.2 million, well below its initial budget estimates. However, the corporation's total cost of operations of 1.6 percent of business volumes exceeded its target of 1.1 percent, which had been based on the assumption that CCC would achieve higher business volumes.

Corporate Objectives for the Next Planning Period

For 1997/98, the corporation is setting three business objectives and forecasts that it will:

- increase to 1,450 the number of companies actively working with CCC on export opportunities (i.e., a 10-percent increase);
- help 340 companies contract successfully through CCC; and
- increase the number of projects on which CCC is active in order to sustain a business volume between $1.0 billion and $1.5 billion.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	250.5	312.8	384.3	390.6	473.2
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	17.3	16.6	18.3	17.0	15.8
Operations					
Revenues	907.5	974.6	879.2	882.1	610.8
Net income	0.6	(1.7)	1.3	1.2	(0.4)
Funding from Canada					
Budgetary	10.9	11.8	13.2	13.8	13.5
Change in budgetary funding	-7%	-10%	-4%	2%	-4%
Non budgetary (loans and investments)	0.6	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	30.0
EMPLOYMENT	90	84	81	81	81

CANADIAN DAIRY COMMISSION

Chairperson and Chief Executive Officer	Guy Jacob
Head Office	Carling Executive Park Suite 300 1525 Carling Avenue Ottawa, Ontario, K1A 0Z2 Telephone: (613) 998-9490 Facsimile: (613) 998-4492 Web Site: http://aceis.agr.ca/cdc
Incorporation and Status	1966 by the *Canadian Dairy Commission Act* (R.S.C. 1985, c. C-15) (S.C. 1994, c. 26 and c. 38) (S.C. 1995, c. 23); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Lyle Vanclief, P.C., M.P. Minister of Agriculture and Agri-Food
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

Established in 1966, the Canadian Dairy Commission's programs and efforts are aimed at giving producers of milk and cream the opportunity to get a fair return for their labour and investment, while giving consumers a continuous and adequate supply of high quality dairy products.

Products and Services

The commission advises the Minister of Agriculture and Agri-Food on matters relating to dairy policy and determines domestic requirements for industrial milk and cream for purposes of establishing Market Sharing Quota (MSQ). The commission also establishes the target price for industrial milk, sets support prices for butter and skim milk powder, and offers to purchase products at these prices.

Since August 1, 1995, the commission has administered a new special milk class pricing and pooling system on behalf of the dairy industry. This has eliminated the need for the commission to make assistance payments to processors and exporters of dairy products.

Corporate Highlights

In response to industry concerns that products were manufactured for unplanned exports when domestic and planned export needs existed, a new element of the Offer to Purchase Program was developed over the past year. The former Plan C element of the Offer to Purchase Program has become a new surplus removal mechanism consisting of two operational elements: processor-initiated and commission-initiated surplus removal.

The March 1996 federal Budget announced that the dairy subsidy would be phased out over a five-year period beginning August 1997. The phase-out has since been deferred by six months. The gradual elimination of the subsidy will be an important aspect of any new long-term dairy policy, and the commission will continue to participate in the policy development process.

Industrial milk and cream production for 1995/96 totalled 46.8 million hectolitres. This represents an increase of 4.1 percent over the previous year and exceeds the 1995/96 MSQ target by 2.9 million hectolitres.

Performance

In 1995/96, the commission played a central role in the development of three new draft federal-provincial agreements on milk pricing and the pooling of milk market returns across Canada. The Commission also helped to implement, administer, evaluate and further refine the special milk class pricing system and the Optional Export Program. It also maintained its administration of the Domestic Dairy Product Innovation Program, the Animal Feed Assistance Program and the Milk Bread Program.

The commission acted as the first receiver of the butter imports required under the WTO Agreement, helped to ensure the high quality of the imports, and facilitated their introduction into the Canadian production and manufacturing system.

The commission enhanced its communications efforts to provide timely information on major programs and policy developments to dairy stakeholders and all those whose business and political decisions affect the dairy industry. It also launched its Internet Web site and introduced a new semi-annual publication, *The Dairy Bulletin*.

The commission and Agriculture and Agri-Food Canada staff prepared a consultation paper providing background information on key dairy issues. Currently, Agriculture and Agri-Food Canada officials, together with commission staff, are involved in the development, by producers and processors, of a new long-term dairy policy.

From an accounting and financial perspective, 1995/96 has been a transition year. The special milk class pricing system has had implications for comparisons of financial

reports and statements with those of previous years. The majority of dairy products destined for export have been purchased at international competitive prices, while the use of levies was mainly restricted to the structural surplus of skim milk powder. Over-production has created a relatively high build-up of butter and skim milk powder inventories. Since these surpluses were purchased at world prices, however, there was no need for a write-down. The year-end financial surplus was mainly due to higher than anticipated world prices for the commission's sales of skim milk powder subject to levies and foreign exchange rates.

Corporate Objectives for the Next Planning Period

Serving as a key industry facilitator and administrator for industry-driven dairy policies and programs, the commission will:

- endeavour to help producers, processors, exporters and consumers to benefit from a strong and market responsive business;
- support and assist the dairy industry to complete its implementation of the major transformation of Canada's milk marketing system that was launched over the past year;
- help dairy stakeholders to meet upcoming challenges, including the phase-out of the federal subsidy, the establishment of a new long-term dairy policy for Canada, and ongoing trade considerations.

SUMMARY INFORMATION

	1995/96	1994/95	1993/94	1992/93	1991/92
FINANCIAL SUMMARY ($ million); financial year ending July 31					
Financial Position					
Total assets	158.6	189.3	176.4	171.0	248.9
Loans from private sector	37.0	68.7	57.2	75.2	30.8
Loans from Canada	75.3	69.3	68.1	58.4	150.8
Shareholder's equity	0.0	0.0	0.0	0.0	0.0
Operations					
Revenues	303.1	214.8	186.0	163.9	242.7
Net income	12.4	33.3	13.5	29.1	13.8
Funding from Canada					
Budgetary	187.6	224.7	226.1	242.6	241.9
Change in budgetary funding	-16%	-1%	-7%	0%	-6%
Non budgetary (loans and investments)	307.4	274.0	226.2	167.3	266.7
Payments to Canada					
Loan repayments	301.5	272.8	216.5	259.7	252.6
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	62	57	57	58	62

CANADIAN FILM DEVELOPMENT CORPORATION

Chairperson	Robert Dinan
Executive Director	François N. Macerola
Head Office	Tour de la Banque Nationale 14th Floor 600 de La Gauchetière West Montreal, Quebec, H3B 4L2 Telephone: (514) 283-6363 Facsimile: (514) 283-8212 Web Site: http://www.telefilm.gc.ca
Incorporation and Status	1967 by the *Canadian Film Development Corporation Act* (R.S.C. 1985, c. C-16); exempt from Divisions I to IV of Part X of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Sheila Copps, P.C., M.P. Minister of Canadian Heritage
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The Canadian Film Development Corporation (Telefilm Canada) fosters and promotes an independent film and television production industry in Canada.

Products and Services

Telefilm provides financial assistance for the development, production and distribution of Canadian motion pictures and television programs.

Corporate Highlights

In September 1996, the Minister of Canadian Heritage announced the creation of the Canada Television and Cable Production Fund (CTCPF). The goal of the CTCPF is to increase the quantity and quality of Canadian audio-visual productions, and improve the performance of the Canadian production and broadcasting system as a whole. Other objectives include the creation of jobs across the country and stimulation of exports of

Canadian products. The CTCPF comprises two complementary programs – the Equity Investment Program administered by Telefilm, and the Licence Fee Program. In 1996/97, Telefilm administered $107.5 million of the fund's total $200 million.

To foster growth and development of the Canadian multimedia industry, Telefilm established a *Pilot Program for Multimedia Production and Publishing Assistance*. Telefilm intends to extend this pilot project into a permanent program with expanded resources. Telefilm has submitted a proposal to the Department of Canadian Heritage for the launching of a new media assistance fund with access to greater resources.

In May 1997, Telefilm launched its Web Site. The site includes general information on the corporation, its funds and programs, a directory for the Canadian industry, television and feature film catalogues, a monthly cinema and television-related events calendar, as well as an exhaustive list of Canada's co-production agreements with 44 foreign countries.

Performance

This year, Telefilm came one step closer to completing its move toward a "one-stop" system of support for the film and television industry. It consolidated its production and distribution divisions into one branch, and decentralized decision-making to its regional offices. To serve the industry better, multi-service business units were established – one for television and one for feature film.

Telefilm devoted $163.8 million to the production and development of television programs, feature films and multimedia products, for an increase of 47 percent over the preceding year. This increase resulted largely from the creation of the CTCPF, of which the Equity Investment Program added significant new funding to the production sector.

Telefilm has also been active on the international scene, supporting Canadian producers in the area of co-production. During the period in review, 47 co-production projects obtained official accreditation from Telefilm, compared to 38 the year before.

Telefilm paid out $174.6 million in support of the Canadian film and television industry, 10 percent more than the year before. Of this amount, $142 million went towards current-year projects, while $32.6 million was devoted to projects carried over from the previous years.

The 1996/97 parliamentary appropriation was down 15 percent from the preceding year; however, the infusion of new funding under the Equity Investment Program allowed Telefilm to contribute a record sum to the production of Canadian films and television programs.

Telefilm's commitments amounted to $206 million, a 29.7-percent increase over the previous year. This increase was attributed to the new funding for production provided by the government under the CTCPF.

As promised in Telefilm's *1996/97 Action Plan,* a large-scale overhaul of the corporation's programs, activities and operating procedures resulted in a substantial reduction in its administrative expenses. The corporation also continued to rationalize its activities and personnel by cutting 19 person-years.

Corporate Objectives for the Next Planning Period

Looking toward the year 2000, Telefilm's cultural mandate is expected to be further challenged by a competitive and converging broadcasting system, global electronic highways and the dismantling of international trade barriers. In light of the need to adapt to a new environment, Telefilm is working on a three-year business plan that will outline strategies to ensure that its cultural mandate is relevant, and that it is focused on meeting industry needs efficiently and effectively well into the next century.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	52.3	47.8	49.0	39.2	33.0
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	31.1	35.6	38.8	28.4	22.7
Operations					
Revenues	0.6	0.7	0.6	0.9	0.9
Net income	(136.4)	(112.1)	(112.0)	(118.3)	(133.6)
Funding from Canada					
Budgetary	92.4	109.0	122.3	132.4	144.5
Change in budgetary funding	-15%	-11%	-8%	-8%	0%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	8.5	7.5
EMPLOYMENT	130	148	166	178	182

Canadian Museum of Civilization Corporation

Chairperson	Adrienne Clarkson
President and Chief Executive Officer	George F. MacDonald
Head Office	100 Laurier Street P.O. Box 3100, Station B Hull, Quebec, J8X 4H2 Telephone: (819) 776-7116 Facsimile: (819) 776-7122 Web Site: http://www.civilization.ca
Incorporation and Status	July 1, 1990 by the *Museums Act* (S.C. 1990, c.3); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Sheila Copps, P.C., M.P. Minister of Canadian Heritage
Auditor	Auditor General of Canada

Mandate and Background

The Canadian Museum of Civilization Corporation has a mandate to increase interest in, knowledge of, and appreciation for human cultural achievements and behaviour throughout Canada and internationally. This involves establishing, for research and posterity, a collection of objects of historical or cultural interest with special but not exclusive reference to Canada.

Products and Services

The Canadian Museum of Civilization Corporation comprises the Canadian Museum of Civilization – Canada's national repository of social and cultural history – and its affiliate museums. The affiliates are the Canadian War Museum – a national museum of military history – and the Museum of New France, which is an entirely virtual museum. In addition to producing on-site and travelling exhibits, the corporation carries on extensive

book and electronic media publishing activities. Other products include educational programming for children, Imax films, lectures and other special events.

Through its Canadian Children's Museum programming, the corporation offers educational exhibits and other activities. In addition, the Canadian Postal Museum provides a program of interactive learning modules on postal history, artifacts and concepts. Canadian Postal Museum programs are toured to schools and other venues, and will eventually be housed permanently within the Canadian Museum of Civilization complex.

Corporate Highlights

In January 1997, the corporation launched the Museum of New France in co-operation with partners on both sides of the Atlantic, including the Department of Canadian Heritage, Foreign Affairs and International Trade, the *Ministère de la Culture* of France, and *Maison des Sciences de l'Homme* in Paris. The Museum of New France is the world's first entirely virtual museum.

In June 1996, the Canadian Museum of Civilization offered a public preview of the First Peoples Hall – an extensive series of galleries telling the stories of Canada's native peoples. During 1996/97, a complete Ukrainian church was moved from its original site in Alberta and reconstructed in the Canada Hall. As well, the corporation moved towards the creation of permanent exhibition space for the Canadian Postal Museum and began expanding Adventure World – the Canadian Children's Museum's outdoor park.

Performance

In 1996/97, the corporation's revenue amounted to $8.7 million – a decrease from the previous year's total of $9.3 million. During the same period, attendance at the Canadian Museum of Civilization dropped slightly to 1.28 million from 1.3 million. The Canadian War Museum met its target of 100,000 visitors. The Canadian Children's Museum programming attracted over 300,000 visitors.

During the period in review, all 19 of the corporation's planned temporary exhibits opened on schedule. Eight new travelling exhibitions were produced, and 17 travelling exhibitions were circulated.

The corporation won national publishing awards for books that it has published, and one of its CD-ROMs won a gold medal in competition with entries from around the world. Its award-winning World Wide Web site has over 6,000 screens of information and recorded over 850,000 hits in 1996/97.

Many of the concerts presented as part of the See and Hear the World music series were sold out. This series brings in performing artists from around the globe. The Cultures Canada music series drew 9,300 people, while the Heat Waves series welcomed 5,300 visitors.

Corporate Objectives for the Next Planning Period

The corporation's objectives are to be a centre of museological excellence communicating its knowledge at the national and international levels; to foster Canadian unity; and to ensure its financial and operational viability.

The first component of this strategy involves research, collections development, and outreach through traditional and non-traditional means. The thrust of the second component is to increase Canadians' sense of their common identity and history. The corporation will continue to undertake research activities, exhibits and other programs focusing on these common characteristics. An immediate priority will be to complete long-term exhibition spaces at the Canadian Museum of Civilization and the Canadian War Museum, and to refurbish the Canadian War Museum's existing long-term exhibition spaces.

To ensure its financial viability, the corporation's goal will be to maximize commercial activities, increase fundraising efforts, and to continue seeking alternative funding sources. Operational efficiency will be enhanced through evaluation processes, training and staff development, and through improving the cost-effective management of the corporation's facilities.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	31.3	30.6	30.5	25.2	25.6
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	16.4	17.6	15.6	13.7	14.4
Operations					
Revenues	8.7	9.3	7.9	7.1	7.3
Net income	(45.4)	(44.2)	(48.2)	(40.3)	(38.2)
Funding from Canada					
Budgetary	44.2	46.2	50.1	39.6	39.2
Change in budgetary funding	-4%	-8%	27%	1%	-5%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	510	534	466	525	525

CANADIAN MUSEUM OF NATURE

Chairperson	Frank Ling
President and Chief Executive Officer	Joanne DiCosimo
Head Office	Victoria Memorial Museum Bldg. 240 Metcalfe Street P.O. Box 3443, Station D Ottawa, Ontario, K1P 6P4 Telephone: (613) 566-4700 Facsimile: (613) 364-4020 Web Site: http://www.nature.ca
Incorporation and Status	July 1, 1990 by the *Museums Act* (S.C. 1990, c. 3); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Sheila Copps, P.C., M.P. Minister of Canadian Heritage
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The mandate of the Canadian Museum of Nature (CMN) is to increase interest in, knowledge of, and appreciation and respect for the natural world throughout Canada and internationally. This involves establishing, for research and posterity, a collection of natural history objects with special but not exclusive reference to Canada.

Products and Services

The Museum's activities can be divided into five areas: Research, Collections, Public Programs, Corporate Services and Accommodation.

Corporate Highlights

In June 1996, the CMN received the ICOM Canada 1996 Award at the Canadian Museum Association conference. The award was in recognition of a project entitled "Developing Staff Resources for Collection Management," a joint initiative of the CMN and the Virginia Museum of Natural History.

Performance

The 1996/97 year saw 90 publications produced by CMN researchers: 47 in peer reviewed journals, and 43 articles in non-refereed publications. In addition, CMN researchers helped in the naming and description of 53 new species and 2 new genera. Thirty animals, 8 plants and 15 minerals were identified for the first time by CMN staff. They also identified 2,722 specimens and conducted 1,915 scientific consultations with the general public, students, teachers and government agencies.

A team of full-time nature interpreters was established to help achieve the Public Programming goals of science literacy, nature literacy, and guided conversation; to increase the public profile and relevance of CMN research and collections; and to create and meet expectations among CMN visitors.

The operation of the Victoria Memorial Museum Building natural history gift shop was outsourced to allow the CMN to concentrate on its core functions.

The CMN completed the consolidation of its staff and natural history collections in its new building located in Aylmer, Quebec.

CMN's 1996/97 revenues of $4.4 million were $1.9 million higher than in 1995/96.

Corporate Objectives for the Next Planning Period

The Canadian Museum of Nature intends to foster a greater appreciation and understanding of Canadian natural history. This will involve collection-based research to generate new knowledge that addresses socially relevant issues, as well as developing, preserving and sharing an information resource of collections and associated data.

The corporation will also pursue a number of strategies aimed at increasing revenues from private-sector sources. Another goal is to improve operational efficiency and effectiveness by implementing new management practices and developing a streamlined, integrated corporate information system.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	55.9	20.5	19.2	7.9	7.3
Loans from private sector	37.4	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	6.1	5.6	4.2	2.3	0.8
Operations					
Revenues	4.4	2.5	1.9	1.5	1.2
Net income	(27.8)	(25.1)	(23.3)	(18.3)	(18.7)
Funding from Canada					
Budgetary	27.1	27.0	27.4	19.8	19.1
Change in budgetary funding	0%	-2%	39%	4%	-1%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	193	240	241	216	251

CANADIAN RACE RELATIONS FOUNDATION

Chairperson	The Honourable Lincoln Alexander, P.C.
Executive Director	Moy Tam
Head Office	4900 Yonge Street, Suite 1305 North York, Ontario M2N 6A4 Telephone: (416) 952-3500 Facsimile: (416) 952-3326 Web Site: http://www.crr.ca
Incorporation and Status	1990 under the *Canadian Race Relations Foundation Act*; exempt from Divisions I to IV of Part X of the *Financial Administration Act*; not an agent of Her Majesty; a charitable organization for the purposes of the *Income Tax Act*.
Appropriate Minister	The Honourable Sheila Copps, P.C., M.P. Minister of Canadian Heritage
Auditor	Deloitte & Touche

CORPORATE ABSTRACT

Mandate and Background

The Canadian Race Relations Foundation was established in 1990 by the *Canadian Race Relations Foundation Act*. Its operations commenced in 1996. The purpose of the foundation is to facilitate, throughout Canada, the development, sharing and application of knowledge and expertise to contribute to the elimination of racism and all forms of racial discrimination in Canadian society.

Products and Services

The Canadian Race Relations Foundation will undertake research and collect data to further understanding of the nature of racism. It will provide data about race relations and establish links with educational institutions. Its purpose is to facilitate the exchange of information that would assist governments in developing effective race relations policies and practices.

The foundation will support race relations training by providing information and assisting in the development of professional standards. It will also have a role to play in informing the public about the importance of eliminating racism and racial discrimination.

Corporate Highlights

The $24 million contributed by Canada in the fall of 1996 to the foundation constitutes the capital of an endowment fund that is to be used for investment and income purposes in furtherance of the foundation's mandate. The foundation is in a start-up phase and is exploring business strategy options.

During the period in review, the foundation received $600,000 in grants from the Secretary of State (Multiculturalism) (Status of Women) to help defray the foundation's start-up costs, including the acquisition of capital assets. In February 1997, the Secretary of State (Multiculturalism) (Status of Women) agreed to contribute $1 million towards the foundation's operations during 1997/98 fiscal year.

Note

Financial data for the Canadian Race Relations Foundation are not yet available. These will be included in the foundation's first annual report, which will cover the period beginning in October 1996 and ending on March 31, 1998.

CANADIAN WHEAT BOARD, THE

Chief Commissioner	Lorne F. Hehn
Head Office	423 Main Street P.O. Box 816 Winnipeg, Manitoba, R3C 2P5 Telephone: (204) 983-0239 Facsimile: (204) 983-3841 Web Site: http://www.cwb.ca
Incorporation and Status	1935 by The *Canadian Wheat Board Act* (R.S.C. 1985, c. C-24); exempt from the provisions of Divisions I to IV of Part X of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Ralph Goodale, P.C., M.P. Minister of Natural Resources and Minister Responsible for The Canadian Wheat Board
Auditor	Deloitte & Touche

CORPORATE ABSTRACT

Mandate and Background

The Canadian Wheat Board (CWB) markets wheat and barley grown in Western Canada in the best interests of Western Canada's grain producers and administers the *Prairie Grain Advance Payments Act.*

Products and Services

The CWB is the marketing agency for western Canadian wheat and barley growers. It is responsible for all domestic sales for human consumption and export sales of wheat and barley grown in the Prairie provinces and some parts of British Columbia. It markets these grains to the Canadian market and to more than 70 countries around the world with the objective of attaining the best possible price. By acting as a seller, banker and shipper, the CWB is actively involved in all facets of the grain industry.

Corporate Highlights

In July 1995, the Western Grain Marketing Panel was created to examine western grain marketing issues. Its report was submitted to the Minister of Agriculture and Agri-Food in July 1996. Among the panel's recommendations were to change the CWB from a federal agency to a mixed enterprise. The panel also recommended that the federal government appoint a board of directors with farmer representation.

Amendments to the *Canadian Wheat Board Act* died on the order paper with the April 1997 dissolution of Parliament and were re-introduced in the House of Commons as Bill C-4 on October 2, 1997. This Bill proposes changes to The Canadian Wheat Board in the areas of corporate governance and operational flexibility.

In the fall of 1995, a study conducted by three economists showed that the CWB's single-desk system generates an additional $265 million per year in wheat revenue for farmers, thereby enhancing Canada's competitiveness.

The CWB launched a major commercial testing program of AC Karma, a variety in the Canada Prairie Spring White wheat class. The results of this study helped to further CWB's knowledge of the noodle market and provide insight into quality characteristics needed in new grain varieties.

Performance

1995/96 was a banner year for grain prices as a result of a shortage of both world wheat and coarse grain supplies. The shortage was due to a gradual but significant decline in world wheat and coarse grain planted area, and poor yields during the last few years on a world-wide basis. Wheat prices reached their highest levels ever; however, Canadian grain supplies for export were cut sharply by a smaller Canadian crop and a much reduced grain carryover. Nonetheless, the total sales value for the four CWB pool accounts reached $5.8 billion.

China was once again the CWB's top wheat customer, while Japan and Brazil were the next largest customers. Algeria was again the top customer for durum, while Saudi Arabia and Japan displaced the United States as major customers for feed barley. The U.S. and China were major customers for malting barley.

The CWB has an ongoing program to improve performance and service to customers and farmers. A new financing program, a wheat quality discussion paper and a special delivery program for fusarium-affected wheat were among the significant initiatives in the year. In March 1996, the CWB implemented a new Euro Commercial Paper Program. Participation in this new financing program gives the CWB lower cost financing and helps increase its presence in global capital markets.

Corporate Objectives for the Next Planning Period

The CWB will continue to promote its vision as a world leader in marketing grain.

SUMMARY INFORMATION

	1995/96	1994/95	1993/94	1992/93	1991/92
FINANCIAL SUMMARY ($ million); financial year ending July 31					
Financial Position					
Total assets	8,281.2	8,043.3	8,858.6	8,651.1	7,296.4
Loans from private sector	7,619.0	7,144.0	7,777.4	7,645.7	6,560.8
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	0.0	0.0	0.0	0.0	0.0
Operations					
Revenues	5,910.0	4,525.5	3,873.4	4,428.1	3,503.9
Net income*	0.0	0.0	0.0	0.0	0.0
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	63.3
Change in budgetary funding	-	-	-	-100%	-92%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	454	452	464	453	446

* The Canadian Wheat Board's policy is to record net income as zero to reflect the fact that all proceeds from sales, less marketing costs, are passed back to farmers.

CAPE BRETON DEVELOPMENT CORPORATION

Chairperson	Joseph Shannon
President and Chief Executive Officer	George White
Head Office	95 Union Street P.O. Box 2500 Sydney, Nova Scotia, B1P 6K9 Telephone: (902) 564-2848 Facsimile: (902) 842-2589
Incorporation and Status	1967 by the *Cape Breton Development Corporation Act*, (R.S.C. 1985, c. C-25); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Ralph Goodale, P.C., M.P. Minister of Natural Resources and Minister Responsible for The Canadian Wheat Board
Auditor	Auditor General of Canada

Mandate and Background

The Cape Breton Development Corporation was established in 1967 for the purpose of reorganizing and rehabilitating the coal industry on Cape Breton Island. The goal of the corporation is to operate safe, commercially viable coal mines that are dependable supplies of quality coal and related energy products.

Products and Services

The corporation is the largest coal producer in Eastern Canada. It operates two collieries and fully integrated support facilities for the preparation and distribution of coal to Canadian and international markets.

Corporate Highlights

The corporation announced in October 1996 that it would change the mining direction of the Prince Colliery from the traditional east/west to a north/south direction in order to address changing and adverse geological conditions.

For the second consecutive year, the corporation realized improvements in reducing lost time accidents and absenteeism. Absenteeism was 11.6 percent, more than two percentage points lower than the average for the previous five years. The number of lost time accidents for every 200,000 hours worked was a record low of 12 compared to 19 in the previous year.

Performance

Sales during 1996/97 totalled 2.4 million tonnes, compared to 2.6 million tonnes for the previous year. In addition, sales to Nova Scotia Power Inc., the corporation's major customer, reached a record-breaking 2.8 million tonnes in the calendar year 1996.

The corporation's budgetary appropriation for the fiscal year was $43.5 million, which is repayable from future profits. A net loss of $30.1 million was reported.

Throughout the year, a number of roof collapses and a breakdown on the rotary breaker resulted in several weeks of downtime at the Phalen Colliery. Despite these obstacles, the colliery managed to achieve 77 percent of its production target. To improve efficiency in both operating and administrative areas, the corporation launched a number of initiatives, for example, the installation of a new pumping system, a major computer system upgrade and the installation of a new underground telephone communication system.

The Prince Colliery produced 191,496 tonnes in the last six weeks of the fiscal year. The budget originally called for it to be idle during the last two quarters; however, low coal inventories and production problems at Phalen Colliery prompted the decision to begin production five weeks ahead of schedule. During the year, the corporation undertook two significant projects to improve the colliery: a haulage system project and a major pumping upgrade project.

Corporate Objectives for the Next Planning Period

The corporation will continue to strive to become a profitable coal mining company. One challenge will be to compete with alternative fuel sources in a deregulated North American electricity market and a competitive international marketplace. In the area of sales and marketing, a key priority will be to maximize sales opportunities with Nova Scotia Power Inc. In the export market, the corporation will focus on the resumption of shipments that are still pending under existing contracts and strategic cargoes aimed at developing several niches in Europe.

The corporation is in the process of developing an environmental management system to address issues such as organizational structure, planning activities, and the practices and resources necessary to implement and maintain environmental policies.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	252.6	259.5	367.0	379.9	356.8
Loans from private sector	0.0	0.0	0.0	0.0	356.8
Loans from Canada	43.5	15.0	5.0	5.0	0.0
Shareholder's equity	78.4	65.0	272.4	267.7	250.6
Operations					
Revenues	167.3	188.4	235.4	231.8	266.0
Net income	(30.1)	(207.4)	(20.7)	(19.3)	(43.0)
Funding from Canada					
Budgetary	43.5	0.0	25.4	38.5	31.0
Change in budgetary funding	-	-100%	-34%	24%	0%
Non budgetary (loans and investments)	0.0	10.0	0.0	5.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	30.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	1,894	2,091	2,203	2,279	2,335

DEFENCE CONSTRUCTION (1951) LIMITED

Chairperson	Reginald W. Lewis
President and Chief Executive Officer	Ross Nicholls
Head Office	Place de Ville Tower B, 17th Floor 112 Kent Street Ottawa, Ontario, K1A 0K3 Telephone: (613) 998-9548 Facsimile: (613) 998-1061 E-mail: dccho@smtp.gc.ca
Incorporation and Status	1951 by the *Defence Production Act* (R.S.C. 1985, c. D-1); continued under the *Canada Business Corporations Act*, November 21, 1978; Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Alfonso Gagliano, P.C., M.P. Minister of Public Works and Government Services
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

Defence Construction (1951) Limited (DCC) contracts for and supervises major military construction and maintenance projects for the Department of National Defence (DND). DND, as owner and design authority, provides DCC with the necessary land and funding, as well as with complete drawings and specifications. To March 31, 1997, DCC has been fully funded by DND through its capital budget.

Products and Services

The corporation provides service in four areas. These are: 1) architectural and engineering consultant contracting and consultant contract administration; 2) construction contracting; 3) construction contract management, including supervision and inspection of the work; and 4) the provision of project management services in support of DND's

environmental program. All contract management work is carried out from offices on individual Canadian Forces' Bases.

Corporate Highlights

During 1996/97, DCC put in place $589 million worth of construction and engineering consulting work – the largest absolute dollar volume of work in the 46 years of its existence. Some of this work was in some measure different from the work that the corporation usually performs. Contracting and contract management of a large amount of design/build work is one example.

DND adopted "optionality" for having its service needs met, including the delivery of the departmental construction program. In response to the change, DCC has moved from an appropriations-based mode of operation to full cost-recovery or service billing. A secondary internal response to optionality has been to re-emphasize the corporation's core competencies.

Performance

The following table highlights the results achieved against planned objectives for 1996/97:

Strategy	Performance Indicators	1995/96 Actual	1996/97 Target	1996/97 Actual
Productivity	Operating costs/Payments on contracts (%)	3.32	3.27	**1.97**
	Site salaries/Payments on construction contracts (%)	1.56	1.64	**0.98**
Efficiency	Payroll multiplier	1.42	1.50-1.60	**1.60**
	Utilization rate (%)	85.4	85	**87.9**
	Overhead/Operating costs (%)	25.7	20-30	**32.5**
Effectiveness	Timeliness of contracting (working days)	26	30	**26**
	Timeliness of contract completions (against original completion dates) (%)	64.4	No set target*	**49.6**
	Change order values (% of award values)	12.1	No set target*	**8.3**
Service Quality	Client satisfaction rating (%)	98.4	95	**100****

* DCC tracks these data in order to provide useful information to clients. The corporation does not have sufficient control over the factors contributing to performance in either of these areas to be able to monitor against industry benchmarks or internally pre-established targets.

** A redesigned questionnaire will go into use in 1997/98 because the results obtained for this indicator have been consistently high over a number of years.

DCC's performance indicator targets are set in relation to private-sector benchmarks.

In 1996/97, DCC met all of its performance indicator targets, with the exception of overhead as a percentage of operating costs. Because of changes in the environment, most notably the move to a service-billing basis of operation, the corporation's performance indicators are being re-evaluated.

Corporate Objectives for the Next Planning Period

In 1997/98, DCC will concentrate its efforts primarily on service billing and on retaining DND's business under conditions of optionality.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million; financial year ending March 31					
Financial Position					
Total assets	4.0	3.6	3.2	2.4	2.6
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	0.5	(0.3)	(0.2)	(0.8)	(1.8)
Operations					
Revenues	18.5	17.9	18.7	18.2	16.0
Net Income	0.7	(0.1)	0.6	1.0	0.2
Funding from Canada					
Budgetary	17.6	16.9	18.1	17.2	14.8
Change in budgetary funding	4%	-7%	5%	17%	0%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	221	207	210	241	240

ENTERPRISE CAPE BRETON CORPORATION

Chairperson and Chief Executive Officer	J. David Nicholson
Head Office	4th Floor 15 Dorchester Street P.O. Box 1750 Sydney, Nova Scotia, B1P 6T7 Telephone: (902) 564-3600 Facsimile: (902) 564-3825 Web Site: http://www.ecbc.ca
Incorporation and Status	1988 by the *Enterprise Cape Breton Corporation Act* (Part II of the *Government Organization Act, Atlantic Canada, 1987* (S.C. 1988, c. 50); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable John Manley, P.C., M.P. Minister of Industry
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The mandate of the Enterprise Cape Breton Corporation (ECBC) is to promote and assist the financing and development of industry on Cape Breton Island, to provide employment outside the coal-producing sector and to broaden the base of the local economy.

Products and Services

The corporation takes a lead role in creating a business environment that fosters sustainable job creation and economic growth on Cape Breton Island and the Mulgrave area of Nova Scotia. It promotes these objectives through proactive and innovative leadership in co-operation with the private and public sectors, and other relevant organizations.

The corporation addresses long-term economic development needs by providing direct assistance to business, investing in strategic economic development infrastructure, promoting Cape Breton Island as a tourism and investment destination, and by promoting entrepreneurship. The corporation's activities target the following sectors: cultural industries; tourism; knowledge-based industries; aquaculture/horticulture and value-added resources; and business services and manufacturing. In addition to its own programs, ECBC is responsible for the delivery of the economic development programs of the Atlantic Canada Opportunities Agency on Cape Breton Island.

The corporation owns and operates an industrial park. Other activities include an aggressive tourism marketing campaign, and a summer employment program for students.

Corporate Highlights

The Memorandum of Understanding (MOU) between ECBC and the University College of Cape Breton was renewed for an additional five years. Under the MOU, the two organizations undertake to work collaboratively to pursue common goals. The renewed agreement focuses on a broader range of priorities including tourism, technology, cultural and knowledge-based industries, value-added resources, manufacturing and business services.

With other levels of government, educational institutions and groups, the corporation has forged partnerships that have led to the growth and development of the technology sector, cultural industries, tourism and resource-based industries. A new program was developed in partnership with Human Resources Development Canada targeting young entrepreneurs interested in establishing their own businesses.

The corporation initiated a third-party study of its performance with respect to its direct support to business activity. The report, prepared by CANMAC Economics Ltd., recognized the positive effect of ECBC's efforts on many aspects of business development in Cape Breton.

Performance

ECBC participated in approximately 550 projects during 1996/97.

The corporation continued to support and promote tourism through various projects. In addition to an aggressive tourism marketing campaign developed and implemented by the corporation in partnership with industry, major projects have included the ongoing development of the tourism industry through the enhancement of attractions such as golf courses and theatre. In addition, ECBC assisted in a community-based initiative to organize a series of special events and festivals to commemorate the 500th anniversary of John Cabot's arrival in North America.

In addition to direct assistance to businesses, the corporation has taken the lead in establishing a resource centre for the primary sectors of agriculture, forestry and aquaculture.

The corporation took a more aggressive role in working with clients to further their businesses. In 1996, it estimated that over 50 companies were helped in this way through the provision of third-party expertise and counselling services.

The corporation continued to assist students in their need for seasonal employment and in the development of entrepreneurial skills through the Careers Cape Breton Program. In its fifteenth year of operation, the program assisted 294 students. Moreover, 28 student entrepreneurs started their own summer business.

Corporate Objectives for the Next Planning Period

The corporation's vision is to address the long-term economic development needs of the community by facilitating job creation, opportunity identification, investment in strategic infrastructure, and the provision of business advice and counselling.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	7.0	4.5	4.5	4.4	5.2
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	4.1	2.7	2.2	2.4	2.5
Operations					
Revenues	0.8	0.9	0.9	1.1	1.1
Net income	(13.4)	(14.5)	(15.7)	(9.9)	(12.4)
Funding from Canada					
Budgetary	14.7	15.0	15.6	9.8	10.1
Change in budgetary funding	-2%	-3%	59%	-2%	-3%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	47	50	41	45	45

EXPORT DEVELOPMENT CORPORATION

Chairperson	Alexander K. Stuart
President and Chief Executive Officer	Ian Gillespie
Head Office	151 O'Connor Street P.O. Box 655 Ottawa, Ontario, K1A 1K3 Telephone: (613) 598-2500 Facsimile: (613) 237-2690 Web Site: http://www.edc.ca
Incorporation and Status	1969 by the *Export Development Act* (R.S.C. 1985, c. E-20) (S.C. 1993, c. 26, in force June 10, 1993); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Sergio Marchi, P.C., M.P. Minister for International Trade
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The Export Development Corporation (EDC) was established on October 1, 1969 to support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and respond to international business opportunities.

Products and Services

EDC's products and services fall into five general categories: 1) credit insurance protecting policy holders against non-payment by their buyers; 2) financing arrangements for Canadian exporters; 3) bonding services for exporters; 4) foreign investment insurance; and 5) equity and other forms of related investments in projects or companies operating abroad.

Corporate Highlights

In response to new *Guidelines for Corporate Governance in Crown Corporations and Other Public Enterprises* issued by the Department of Finance and Treasury Board of Canada, EDC established a corporate governance committee of the board of directors to assist the board in developing its own approach to governance issues.

EDC created nine specialized customer teams, focusing on major sectors of the export economy, to provide clearer customer focus, satisfaction and responsiveness.

Performance

EDC indicated that it has met or exceeded all of its 1996 performance targets while serving a record 2,965 customers – approximately 85 percent of which were small and medium-sized Canadian enterprises (SMEs). The table below highlights the results achieved for the period.

Overall, business volume grew 28 percent to a record $22 billion; productivity – measured by exports supported per dollar spent on administration – increased by 21 percent; the Customer Satisfaction Index rose from 8.5 to 8.8 out of 10; and net income increased from $44 million to $112 million. The higher profit was largely a result of higher investment income and lower administrative expenses than projected.

Strategy		Performance Measures	1995 Actual	1996 Target	1996 Actual
DO MORE BUSINESS	Increase business volume	Business volume ($ billion)	17.2	20.5	**22**
	Increase customer satisfaction	Customer satisfaction index (out of 10)	8.5	8.6	**8.8**
	Increase business in higher risk markets	Business volume in high-risk markets ($ million)	4,400	n/av*	**5,178**
WITH MORE CUSTOMERS	Retain key accounts	Short-term insurance retention rate of key accounts (%)	100	100	**100**
	Increase the number of customers served	Customers served	2,462	2,900	**2,965**
IN A FINANCIALLY SOUND MANNER.	Increase internal efficiency	Productivity ratio ($) (Volume/Admin. expenses)	302	317	**367**
	Grow capital base to support growth in business	Net income ($ million)	44	45	**112**

* not available

Corporate Objectives for the Next Planning Period

EDC's growth strategy will continue to focus on increasing its customer base and the amount of business supported by its activities. The corporation has a number of measures in place to monitor its performance with respect to its objectives. Additional performance measures are to be introduced in 1997.

In pursuing its growth strategy, the corporation recognizes the need for increased co-operation with other financial institutions to ensure that it provides customers with comprehensive solutions to their global needs.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	9,706.0	9,428.0	9,375.0	9,154.0	8,107.2
Loans from private sector	7,680.0	7,602.0	7,660.0	7,624.0	6,746.2
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	1,417.0	1,173.0	1,091.0	895.0	879.2
Operations					
Revenues	890.0	965.0	844.0	699.0	660.3
Net income	112.0	44.0	171.0	41.0	44.2
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non Budgetary (loans and investments)	132.0	38.0	25.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	25.0	0.0
Canada Account					
Financial position					
Assets administered for Canada	2,899.0	2,812.0	2,641.0	2,333.0	1,906.0
Budgetary appropriations	135.0	148.0	139.0	162.0	185.0
EMPLOYMENT	602	557	549	541	512

FARM CREDIT CORPORATION

Chairperson	Donald W. Black
President and Chief Executive Officer	John J. Ryan
Head Office	1800 Hamilton Street P.O. Box 4320 Regina, Saskatchewan, S4P 4L3 Telephone: (306) 780-8100 Facsimile: (306) 780-5875 Web Site: http://www.fcc-sca.com
Incorporation and Status	1959 by the *Farm Credit Act* (R.S.C. 1993, c. C-95); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Lyle Vanclief, P.C., M.P. Minister of Agriculture and Agri-Food
Auditor	Auditor General of Canada

Mandate and Background

The Farm Credit Corporation (FCC) was established in 1959 to deliver specific programs of the Government of Canada on a cost-recovery basis and to assist Canadian farmers in establishing and developing viable farming enterprises by providing long-term credit and other financial services. FCC's legislative mandate was expanded in 1993 to include aquaculture, agri-forestry and agri-business.

The corporation maintains a corporate office in Regina, and it serves its clients from over 100 offices in farming communities across Canada.

Products and Services

The FCC makes mortgage loans to farmers for the purchase of farmland, livestock and machinery, permanent farm improvements and debt refinancing. The corporation also lends to farmers for the acquisition of agricultural facilities and equipment, and participates in joint initiatives with provinces and other institutions.

Corporate Highlights

In response to the recommendations of the Senate Standing Committee on Banking, Trade and Commerce, the FCC and the Business Development Bank of Canada have partnered to offer joint financing to a number of agri-business and rural development initiatives, and have established a referral network.

The 1997 federal Budget announced a $50 million capital injection to FCC.

Performance

FCC approved a record of 12,910 loans with a net value of $1.4 billion. This represents a 27-percent increase in the number of loan approvals and a 36-percent increase in the dollar value compared to last year. Net loan disbursements totalled $1.3 billion, representing a 44-percent improvement over last year and exceeding budget by 30 percent.

Growth since 1993/94 has largely been attributed to expanded mandate lending. In three years, expanded mandate lending has grown to represent 48 percent of new lending.

At year end, the loans receivable portfolio was at $4.7 billion, representing a 15-percent year-over-year increase and surpassing FCC's target by 4 percent.

Net income was $40.6 million for the year compared to the budgeted amount of $26.2 million. The variance of $14.4 million over budget was largely due to higher net interest income than projected.

Total administrative expenses were $84.1 million for the year compared to $67.3 million a year earlier. This 25-percent increase was the result of two factors: 1) the cost of operations increased by 11 percent to help manage a 27-percent increase in loan approvals; and 2) $9.7 million invested in the first year of a major re-engineering project. The administrative expense ratio measures how efficiently the corporation has used its core assets in delivering its services. This ratio was 1.86 percent for the year, falling short of the target of 1.66 percent and last year's result of 1.69 percent.

Corporate Objectives for the Next Planning Period

Over the next five years, FCC will continue not only to manage the challenge of change, but also to excel in offering excellent services and products to the agricultural industry. As indicated in the summary of its 1997 to 2002 Corporate Plan, FCC has set the following objectives:

- Develop a support system that fulfils the expectations of customers;

- Design and implement business information systems that fulfil the expectations of customers;
- Enhance access to capital and other financial services for agricultural clients;
- Create an environment that results in dedicated and resilient employees; and
- Provide financial services to farmers and agri-businesses consistent with government objectives for rural economic development.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	5,022.5	4,371.4	3,986.3	3,773.6	3,623.0
Loans from private sector	2,485.3	1,730.9	1,270.3	1,049.9	798.1
Loans from Canada	2,016.3	2,115.0	2,251.1	2,303.1	2,417.9
Shareholder's equity	457.7	419.8	359.6	316.9	288.6
Operations					
Revenues	446.6	412.4	385.9	373.1	391.9
Net income	40.6	40.4	42.7	28.3	20.4
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	220.0	302.0	643.1	265.0
Payments to Canada					
Loan repayments	134.0	356.1	354.0	760.0	335.7
Dividends	2.7	4.0	0.0	0.0	0.0
EMPLOYMENT	800	772	760	760	718

FRESHWATER FISH MARKETING CORPORATION

Chairperson	Sam Murdock
President and General Manager	Ron Fewchuk
Head Office	1199 Plessis Road Winnipeg, Manitoba, R2C 3L4 Telephone: (204) 983-6600 Facsimile: (204) 983-6497
Incorporation and Status	1969 by the *Freshwater Fish Marketing Act* (R.S.C. 1985, c. F-13); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable David Anderson, P.C., M.P. Minister of Fisheries and Oceans
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The Freshwater Fish Marketing Corporation (FFMC) was established in 1969 by the *Freshwater Fish Marketing Act*, and with the participation of each of the provinces and territory in which it operates, for the purpose of marketing and trading in fish, fish products and fish by-products in and outside of Canada. The participation of the provinces of Manitoba, Saskatchewan, Alberta, Ontario and the Northwest Territories was established by agreement with the Government of Canada.

The corporation is required to conduct its operations on a self-sustaining basis without appropriations from Parliament. The total borrowings of the corporation may not exceed $30 million outstanding at any time.

Products and Services

FFMC has the exclusive right to trade and market the products of the commercial fishery on an interprovincial and export basis. The corporation purchases fish at initial prices established by the Board of Directors based upon operational forecasts prepared by the corporation and the cost of such purchases included in the cost of sales. Final payments to

fishers, if any, are approved by the Board of Directors after the end of the year, based on the results of operations for the year.

Corporate Highlights

FFMC's sales of rough fish reached an all-time record. During 1996/97, 4.7 million kilograms of freshwater mullet were harvested and sold by the corporation. Production and sales of carp increased by 33 percent to 552,000 kilograms.

The corporation made inroads into the Eastern European whitefish market. It opened new markets for northern pike in two countries in the former Soviet Union, and retail sales of pike were expanded in North America.

During the period in review, competition has been fierce on a number of fronts. For example, large volumes of European walleye and Alaskan salmon have been offered at low prices. The corporation has also faced competition from outside the fish and seafood industry, particularly from bargain priced poultry.

Landings of pickerel, sauger and lake perch have declined significantly. This has sharply reduced the corporation's profitability. Another difficulty faced by the corporation has been fluctuations in currency values, which hurt its sales and earnings in Europe.

Performance

In 1996/97, revenues decreased to $43 million from $47.1 million during the previous year. The surplus generated for final payments to fishers amounted to $180,000 compared to $2.75 million in 1995/96.

Corporate Objectives for the Next Planning Period

The corporation will continue to undertake its fish marketing activities with the objectives of maximizing returns to fishers, promoting international markets, and increasing interprovincial and export trade in fish.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending April 30					
Financial Position					
Total assets	20.1	20.6	17.5	15.9	19.2
Loans from private sector	13.4	13.8	10.5	9.4	12.6
Loans from Canada	0.0	0.0	1.0	0.5	0.8
Shareholder's equity	4.2	4.2	4.2	4.2	4.0
Operations					
Revenues	43.0	47.1	43.7	38.8	45.8
Net income	0.0	0.0	0.0	0.2	0.2
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.5	0.0	0.0
Payments to Canada					
Loan repayments	0.0	1.0	0.0	0.3	4.6
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	32	33	38	38	40

GREAT LAKES PILOTAGE AUTHORITY, LTD.

Chairperson and Chief Executive Officer	Richard G. Armstrong
Head Office	Second Floor 202 Pitt Street Cornwall, Ontario, K6J 3P7 Mailing Address: P.O. Box 95 (K6H 5R9) Telephone: (613) 933-2991 Facsimile: (613) 932-3793 E-mail: glpa@apl.gc.ca
Incorporation and Status	1972 pursuant to the *Pilotage Act* (R.S.C. 1985, c. P-14); incorporated under the *Canada Corporations Act* in May 1972 as a subsidiary of The St. Lawrence Seaway Authority; is deemed to be a parent corporation within the meaning of the *Financial Administration Act* and is listed in Schedule III, Part I of that Act; not an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The Great Lakes Pilotage Authority, Ltd. was established in 1972 to operate, maintain and administer a safe and efficient pilotage service in all Canadian waters in the provinces of Ontario and Manitoba and in Quebec south of the northern entrance to the St. Lambert Lock.

Products and Services

In addition to providing pilotage services, the authority with the approval of the Governor in Council makes regulations that prescribe the compulsory pilotage areas; the ship or classes of ships that are subject to compulsory pilotage; when compulsory pilotage may be waived; the tariff rates for pilotage; and the classes of licences and classes of pilotage certificates that may be issued.

Corporate Highlights

For the fourth consecutive year, the authority realized an operating surplus without increasing tariffs.

Three-year collective agreements that will expire in 1999 were negotiated with all pilot groups.

The year 1997 marks the 25th Anniversary of the promulgation of *the Pilotage Act* and the subsequent incorporation of the authority.

Performance

The authority reported revenues of $12.7 million – an increase of $1.3 million from the previous year. Expenses totalled $11.6 million, resulting in a net profit for the year of $1.0 million. Total pilotage assignments increased by 17 percent over 1995 and ocean vessel arrivals at St. Lambert Lock, the entry to the system, increased by 179 compared to 1995.

The authority reported an accident-free record of 99.4 percent for the year. The following table highlights the performance results reported for the period.

Performance Measures	1996 Forecast	1996 Actual	1995 Actual
Average human resources	77	**78**	76
Pilot assignments performed	5,350	**6,901**	6,091
Accident-free assignments (%)	99.5	**99.4**	99.5
Average cost of performing an assignment ($)	1,778	**1,687**	1,638

Corporate Objectives for the Next Planning Period

The authority's objective is to continue to provide a safe and efficient pilotage service within certain designated Canadian waters in and around the provinces of Ontario, Manitoba and Quebec.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	10.5	8.3	7.6	2.3	2.9
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	4.0	3.0	1.7	(2.3)	(2.5)
Operations					
Revenues	12.7	11.3	13.9	9.4	8.3
Net income	1.0	1.3	3.3	0.0	(1.1)
Funding from Canada					
Budgetary	0.0	0.0	0.6	0.2	1.9
Change in budgetary funding	-	-100%	313%	-92%	32%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	78	81	80	81	89

HALIFAX PORT CORPORATION

Chairperson	Mervyn C. Russell
President and Chief Executive Officer	David F. Bellefontaine
Head Office	Pier 19, 1215 Marginal Road P.O. Box 336 Halifax, Nova Scotia, B3J 2P6 Telephone: (902) 426-3643 Facsimile: (902) 426-7335 Web Site: http://fox.nstn.ca/mrkting
Incorporation and Status	1984 letters patent of incorporation pursuant to subsection 25 (1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Doane Raymond

CORPORATE ABSTRACT

Mandate and Background

The Halifax Port Corporation was established in 1984 to administer, manage and control the Halifax harbour, and works and property within the harbour.

Products and Services

The corporation is an autonomous local port corporation that provides services for Canada's international shipping trade in the Halifax Port area.

The port's business includes breakbulk cargo, grain and cruise vessel traffic.

Corporate Highlights

1996 was the fourth consecutive year for which the corporation reported an increase in its net income over that of the previous year.

Performance

The corporation achieved its major objectives, which are to continuously increase its container volumes, expand its non-container revenue base, maintain financial self-sufficiency and increase the efficiency and functionality of its facilities. In brief, container volumes increased in 1996 compared with the previous year even though there was an extraordinary surge in container cargo in 1995 due to the Montreal longshoremen's strike. Breakbulk cargo, grain and the cruise business all posted significant gains, further reducing the corporation's reliance on the volatile container trade. Two major capital projects were initiated and, when completed, will result in improved container handling capability.

Total port cargo was 12.9 million tonnes, down 1 percent from the previous year. The decline was the result of a reduction in fuel oil handled at the local refineries. Containerized cargo grew by 1 percent to 3.2 million tonnes. Waterborne grain volumes increased by 19 percent to 363,196 tonnes. Further increases in grain volumes can be expected in the future due to the recently completed expansion to the local Dover Mills plant. The number of cruise vessel calls was up by 18 percent to 46, and the passenger count was up by 21 percent to 36,584.

The corporation reported a net income of $3.1 million for 1996 – an increase of 73 percent from the previous year. Revenue from operations, not including investment income or gains on disposal of fixed assets, grew by 3.4 percent to $13.1 million. The growth was due entirely to increased cargo, vessel and rental activities as tariff rates remained unchanged for the sixth consecutive year.

Operating expenses decreased by 5.3 percent to $10.9 million in 1996. Most of the decrease was due to the $1 million reduction in maintenance and National Office costs.

In 1996 the corporation paid a dividend to Canada of $178,577 in respect of its 1995 financial results. Based on the corporation's 1996 financial performance, the forecast payment for 1997 is approximately $450,000.

Corporate Objectives for the Next Planning Period

The Halifax Port Corporation's major objectives are to:

- Increase container volumes on average by not less than 4 percent per annum between 1995 and 2001;
- Expand its non-containerized revenue base;
- Maintain sufficient income and cash flow levels to satisfy the port's financial requirements;

- Increase the efficiency and/or functionality of the port's facilities; and
- Enhance productivity and give employees opportunities for training, development and personal growth.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	74.7	69.4	67.5	66.3	65.9
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	68.2	65.4	63.6	63.1	62.8
Operations					
Revenues	14.0	13.3	11.7	11.2	11.2
Net income	3.1	1.8	0.5	0.3	0.0
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	2.7
Dividends	0.2	0.2	0.0	0.0	0.1
EMPLOYMENT	65	63	68	63	88

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE

Chairperson	Gordon Smith
President and Chief Executive Officer	Maureen O'Neil
Head Office	250 Albert Street P.O. Box 8500 Ottawa, Ontario, K1G 3H9 Telephone: (613) 236-6163 Facsimile: (613) 238-7230 Web Site: http://www.idrc.ca
Incorporation and Status	1970 by the *International Development Research Centre Act*, (R.S.C. 1985, c. I-19); exempt from provisions of Divisions I to IV of Part X of the *Financial Administration Act*; not an agent of Her Majesty.
Appropriate Minister	The Honourable Lloyd Axworthy, P.C., M.P. Minister of Foreign Affairs
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The International Development Research Centre (IDRC) initiates, encourages, supports and conducts research into the problems of the developing regions of the world. It also promotes and carries on research into the means for applying and adapting scientific, technical and other knowledge to the economic and social advancement of those regions.

Products and Services

IDRC has structured its programs along the lines of issues or themes and the knowledge required to address them rather than in terms of traditional disciplines such as economics, health or agriculture. IDRC's programming is based on the following six themes: 1) biodiversity conservation; 2) equity in natural resource use; 3) food security; 4) information and communication; 5) strategies and policies for healthy societies; and 6) sustainable employment.

Corporate Highlights

1996 marked the end of IDRC's first Corporate Program Framework, which has guided IDRC's programming for the past four years. In October, the Board of Governors approved a new triennial plan that confirmed IDRC's thematic structure and its search for effective, holistic solutions to development challenges.

Connecting to the World, a report drafted by a task force of leading Canadian experts, was released in November 1996. Sponsored by IDRC, the International Institute for Sustainable Development and the North-South Institute, the report recommended that Canada dedicate 15 percent of its official development assistance to activities that improve the gathering, use and sharing of knowledge.

IDRC's Business Development Office was established during the past fiscal year to co-ordinate IRDC's revenue-diversification efforts through the co-funding of projects with other multilateral organizations and foundations, joint partnerships with the private sector and contract research.

Performance

In 1996/97, IDRC concentrated its efforts on three priorities: 1) refining its program orientation; 2) building on opportunities emerging from co-funding and other partnership ventures; and 3) making the centre a more efficient and effective instrument for supporting multidisciplinary development research.

Revenues received from outside sources to expand its program activities or for the management of special activities on behalf of the other organizations reached a new high of $20.5 million, representing a growth rate of 34.7 percent. This increase was largely due to the growth in co-funding activities administered by IDRC. Interest income declined slightly as a result of lower average yields earned on investments.

Expenditures in 1996/97 were in line with the revised budget. IDRC's total expenditures of $119 million were slightly lower than the $119.9 million reported in the previous year, which included restructuring costs of $5.5 million. Moreover, in 1996/97, IDRC amended its policy on the amortization of capital assets, and obsolete computer equipment was written down to its current market value. These changes added $1.2 million to operational costs. In addition, general management expenditures declined by $1.2 million from the previous year.

Corporate Objectives for the Next Planning Period

IDRC has adopted a multidisciplinary approach to solving development problems. Under the general umbrella of the six themes, the corporation now funds research through specific program initiatives managed by multidisciplinary teams. IDRC's firm belief is that the growing severity, intractability, and urgency of the problems related to global poverty justify the risks inherent in this change.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	53.3	46.3	43.3	41.3	18.1
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	9.2	7.1	26.0	24.9	0.1
Operations					
Revenues	122.8	117.0	132.5	153.7	127.1
Net income	2.1	1.8	1.1	24.9	1.9
Funding from Canada					
Budgetary	97.5	103.4	111.9	142.0	117.1
Change in budgetary funding	-6%	-8%	-21%	21%	1%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	357	423	470	467	459

LAURENTIAN PILOTAGE AUTHORITY

Chairperson and Chief Executive Officer	Jean-Claude Michaud
Head Office	6th Floor 715 Victoria Square P.O. Box 680, Stock Exchange Tower Montreal, Quebec, H4Z 1J9 Telephone: (514) 283-6320 Facsimile: (514) 496-2409 E-mail: apl@apl.gc.ca
Incorporation and Status	1972 pursuant to the *Pilotage Act* (R.S.C. 1985, c. P-14); Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The Laurentian Pilotage Authority was established in 1972 to operate, maintain and administer a safe and efficient pilotage service in the St. Lawrence River between Les Escoumins and the north end of the St. Lambert Lock, in the Saguenay River and in Chaleur Bay north of Cap d'Espoir.

Products and Services

In addition to providing pilotage services, the authority with the approval of the Governor in Council makes regulations that prescribe the compulsory pilotage areas; the ship or classes of ships that are subject to compulsory pilotage; when compulsory pilotage may be waived; the tariff rates for pilotage; and the classes of licences and classes of pilotage certificates that may be issued.

Corporate Highlights

Two important labour negotiations were concluded during the year. The collective agreement between the authority and the Public Service Alliance of Canada was renewed for a five-year period in October 1996. The agreement, which relates to pilot dispatchers and office staff, provides for a salary freeze in the first year and a cost-of-living adjustment for the following four years. On September 3, 1996, the pilot service contract with the Mid St. Lawrence River Pilots was renewed. This contract provides for no increase in pilot fees for the first year, an increase of 1.5 percent for the second and 2 percent for the third.

According to the National Marine Policy, parliamentary appropriations are no longer available to the authority to defray any cash operating losses. As a result, the Minister of Finance authorized the authority to have recourse to short-term borrowings for an amount not exceeding $3 million.

A $2.4 million loan amortized over 15 years was authorized for the construction and acquisition of the new pilot boat *Charlevoix*.

A revised tariff for pilot boat services came into effect on January 1, 1997.

The authority considered options for merging its two dispatch centres into one. The status quo will be maintained because the immediate merger would require significant cash outlays that the authority cannot presently afford. This project is to be reviewed again in five years.

Performance

The authority reported 21,342 pilotage assignments compared to 21,973 in 1995 – a decrease of 2.9 percent. Of the 21,342 assignments, 21,319 were without incident. This represents an incident-free record of 99.9 percent.

Total 1996 revenues of $36 million were nearly $1.7 million higher than in 1995 while total 1996 expenses of $38.8 million were $300,000 higher than in 1995. Despite the larger increase in revenues, the authority recorded a net loss of $2.8 million in 1996. Its 1995 net loss was $4.2 million.

Corporate Objectives for the Next Planning Period

The authority's objective is to continue to provide a safe and efficient pilotage service within certain designated Canadian waters in and around the Province of Quebec.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	11.5	10.6	8.1	6.9	7.1
Loans from private sector	5.7	1.8	0.4	0.8	1.1
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	(1.6)	0.5	0.1	(0.7)	(0.3)
Operations					
Revenues	36.0	34.4	33.4	27.0	27.5
Net income	(2.8)	(4.2)	(3.2)	(6.0)	(4.9)
Funding from Canada					
Budgetary	0.7	4.5	5.0	6.2	6.3
Change in budgetary funding	-84%	-9%	-19%	-2%	30%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	217	222	241	245	256

MARINE ATLANTIC INC.

Chairperson	Moya Cahill
President and Chief Executive Officer	Roderick J. Morrison
Head Office	100 Cameron Street Moncton, New Brunswick, E1C 5Y6 Telephone: (506) 851-3600 Facsimile: (506) 851-3786 Web site: http://www.marine-atlantic.ca
Incorporation and Status	1979 by the *Canada Business Corporations Act*. Status and ownership changed as of December 31, 1986 pursuant to the *Marine Atlantic Inc. Acquisition Authorization Act* (S.C. 1986, c. 36); Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	KPMG Auditor General of Canada

Mandate and Background

Marine Atlantic Inc. became a Crown corporation in 1986. Its mandate is to acquire, establish, manage and operate a marine transportation service; a marine maintenance repair and refit service; a marine construction business and any related service.

Products and Services

Marine Atlantic Inc. provides marine ferry services in Atlantic Canada. In 1996, it operated 11 ships and chartered two others. The company's 1996 operations included ferry services between North Sydney, Nova Scotia and Port aux Basques, Newfoundland, and between Cape Tormentine, New Brunswick and Borden, Prince Edward Island. The company also provided a year-round link between Saint John, New Brunswick and Digby, Nova Scotia.

Seasonal ferry services were provided between Labrador and Newfoundland, between North Sydney, Nova Scotia and Argentia, Newfoundland, and between Yarmouth, Nova Scotia and Bar Harbor, Maine.

Corporate Highlights

Marine Atlantic Inc. became the first Canadian shipping company and the first ferry operator in North America to receive International Safety Management (ISM) certification.

The Bay of Fundy ferry services were transferred to a private operator. In addition, the opening of the Confederation Bridge on May 31, 1997 marked the end of Marine Atlantic's ferry service between New Brunswick and Prince Edward Island.

Performance

Non consolidated revenues were $94.3 million. Government operating subsidies amounted to $67.6 million, which represented a $22-million reduction from the 1995 subsidy of $89.6 million. This financial improvement was attributable to a number of factors. These included: 1) better matching of vessel capacity to demand; 2) the 1995 transfer of the Newfoundland south coast service to the province and the retirement of the MV *Taverner*; 3) the introduction of seasonal service for the MV *Bluenose*; and 4) a mild winter, which reduced fuel consumption.

The company reported a net loss of $75.3 million compared to a net profit of $0.9 million in 1995. The loss was attributed mainly to the high restructuring costs associated with the discontinuation of various services.

Total traffic was at the highest level ever, while the subsidy required from Transport Canada plunged to a new low. The company transported 2,758,000 passengers, 964,036 vehicles, and 291,906 commercial vehicles. In its Labrador service, Marine Atlantic carried over 50,000 tonnes of freight.

Corporate Objectives for the Next Planning Period

Restructuring costs associated with the discontinued services, in the amount of $75.5 million, will be spread over 1997 and 1998, and will increase the overall subsidy requirement to $114.1 million and $56.8 million respectively.

The company will continue to look into all facets of its operations to ensure that employees are well trained and productive, and that practices and procedures make the best use of new technology. Other objectives will be to ensure that ships and terminals are safe, and that customer service levels reach all-time high ratings.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	326.1	352.4	396.1	403.1	414.3
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	(87.6)	(12.3)	(13.2)	(13.4)	(13.1)
Operations					
Revenues	163.4	95.7	88.6	81.2	77.4
Net income	(75.3)	0.9	0.2	(0.3)	(0.3)
Funding from Canada					
Budgetary	85.7	97.1	108.7	128.3	122.8
Change in budgetary funding	-12%	-11%	-15%	4%	-3%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	2,011	2,019	2,110	2,127	2,175

MONTREAL PORT CORPORATION

Chairperson	Raymond Lemay
President and Chief Executive Officer	Dominic J. Taddeo
Head Office	Montreal Port Building Cité du Havre, Wing No. 1 Montreal, Quebec, H3C 3R5 Telephone: (514) 283-7042 Facsimile: (514) 283-0829
Incorporation and Status	1983 by letters patent of incorporation pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Samson Bélair Deloitte & Touche

CORPORATE ABSTRACT

Mandate and Background

The Montreal Port Corporation was established in 1983 to administer, manage and control the Montreal harbour, and works and property within the harbour.

Products and Services

The corporation is an autonomous local port corporation that provides services for Canada's international shipping trade in the Montreal port.

The port's business includes the handling of containers, non-container general cargo, and dry and liquid bulk traffic.

Corporate Highlights

In 1996 the port handled a record number of containers and containerized general cargo tonnage. The corporation reported that statistics show that the Port of Montreal handles more North Atlantic container cargo than any other port on North America's eastern seaboard.

The corporation reported net earnings for a 17th consecutive year and noted that, according to a study carried out last autumn for Transport Canada by Nesbitt Burns, the Montreal Port Corporation is the local port corporation that is in the best financial shape.

The corporation undertook various initiatives, both tariff and non-tariff related, to make the port more competitive. These included reducing wharfage charges on steel products by 43 percent, continuing a freeze on almost all of its general tariffs, and together with the Maritime Employers Association creating a training centre for longshoremen and checkers. The corporation invested more than $1 million in the training facility that includes a high-tech crane simulator.

The corporation held public information sessions on a project for the selective dredging of underwater shoals in the channel between Montreal and Cap-à-la-Roche. This project would increase the ensured minimal water depth in the channel by 30 centimetres in order to optimize vessel loading, particularly during low-water periods.

Performance

The corporation indicated that the Port of Montreal performed much better than its rivals in the competitive containerized cargo market. Containerized general cargo in 1996 increased by 11.3 percent to reach an unprecedented 7.9 million tonnes. The port handled 126,095 containers more than in 1995. Moreover, despite a decrease in petroleum products, total traffic reached 19.9 million tonnes – an increase of 3.7 percent.

General cargo traffic including containers reached a record 8.4 million tonnes – an increase of 9.9 percent over 1995. Dry bulk traffic totalled 6.2 million tonnes – an increase of 4.7 percent. Total grain traffic of 1.4 million tonnes, however, was 12.2 percent lower than in 1995. The poor autumn 1995 harvest hurt all St. Lawrence River grain elevators throughout most of 1996, and early snowfalls on the Prairies last year delayed deliveries to the Montreal Port's grain elevator. Liquid bulk traffic was down 6 percent as a result of a decrease in petroleum products.

The corporation's net earnings reached $11.8 million – compared with $9.3 million in 1995. Revenue from operations totalled $56.2 million – an increase of 3 percent.

In 1996 the corporation paid a dividend to Canada of $2.4 million in respect of its 1995 financial results. Based on the corporation's 1996 financial performance, the forecast dividend payment for 1997 is approximately $3.2 million.

Corporate Objectives for the Next Planning Period

The Montreal Port Corporation's major objectives are to:

- Maintain the competitiveness of the port system and promote business development;
- Improve intermodal access to port installations;
- Generate average operating incomes that exceed 5 percent of operating revenues over the period;
- Optimize efficiency of human resources;
- Explore the possibility of expanding the port at Contrecoeur.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	250.9	243.8	235.4	226.6	222.9
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	2.9	3.5	4.1	4.7	5.2
Shareholder's equity	231.3	221.9	214.9	209.3	204.6
Operations					
Revenues	61.9	60.4	61.5	56.3	57.4
Net income	11.8	9.3	8.7	11.4	5.0
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.6	0.6	0.6	0.5	0.5
Dividends	2.4	2.3	3.1	6.8	1.3
EMPLOYMENT	335	349	349	349	401

National Arts Centre Corporation

Chairperson	Jean Thérèse Riley
Director and Chief Executive Officer	John Cripton
Head Office	53 Elgin Street P.O. Box 1534, Station B Ottawa, Ontario, K1P 5W1 Telephone: (613) 996-5051 Facsimile: (613) 996-9578 Web Site: http://www.nac-cna.ca
Incorporation and Status	1966 by the *National Arts Centre Act* (R.S.C. 1985, c. N-3); exempt from the provisions of Divisions I to IV of Part X of the *Financial Administration Act*; not an agent of Her Majesty; a charitable organization for the purposes of the *Income Tax Act*.
Appropriate Minister	The Honourable Sheila Copps, P.C., M.P. Minister of Canadian Heritage
Auditor	Auditor General of Canada

Mandate and Background

The National Arts Centre Corporation (NAC) was established in 1966 to play a leadership role in fostering artistic excellence in all of the performing arts disciplines.

Products and Services

The NAC operates and maintains the National Arts Centre, develops the performing arts in the National Capital Region and assists the Canada Council in the development of the performing arts elsewhere in Canada.

Corporate Highlights

Significant events that occurred during 1995/96 included the hiring of new artistic, financial and administrative leadership, the implementation of co-ordinated strategic

planning, streamlined business systems and improved internal and external communications.

Performance

The 1995/96 renewal process has brought about significant changes to several fronts, most noticeably in the level of programming. Overall, the NAC maintained attendance at 623,638 at 1,142 performances compared with total attendance of 627,881 at 1,196 performances in the preceding season. However, Dance and Special Projects attendance fell by more than 23 percent. Forty-seven fewer English Theatre performances translated into a 1 percent decline in attendance while revenues dropped almost $100,000. The French Theatre realized a 1,545 increase in attendance and a $74,284 increase in box office and subscription revenue.

The NAC improved its financial position in 1995/96 compared to previous years. The "quick ratio" (i.e., cash plus receivables/total current liabilities) of 0.97 in 1995/96, compared with the previous 10-year average of 0.57, marked an important milestone for the corporation and means that it was very close to achieving liquidity. Moreover, marked improvement occurred in the NAC's current ratio (total current assets/total current liabilities) indicating an increase in working capital for the period. NAC's operating costs exceeded revenue by about $19.5 million. After the parliamentary appropriation, it reported a loss of $636,000, mainly due to the write-off of $122,400 in production materials and office supplies and the charging of $500,000 in major repairs to expense instead of capital expenditure. The following table highlights the results achieved for the period.

Program	No. of Performances		Attendance		Capacity (%)		Revenues	
	1995/96	1994/95	**1995/96**	1994/95	**1995/96**	1994/95	**1995/96**	1994/95
Music	**205**	239	**145,560**	150,020	**81**	82	**$2,856,832**	$3,111,929
Dance & Special Projects	**56**	84	**52,138**	68,170	**74**	78	**$1,269,170**	$1,652,878
English Theatre	**448**	401	**148,315**	149,878	**64**	75	**$1,406,864**	$1,503,671
French Theatre	**329**	349	**94,788**	93,243	**79**	80	**$534,522**	$460,238
Other	**104**	123	**182,837**	166,570	**68**	70	**$1,568,161**	$1,735,246

Corporate Objectives for the Next Planning Period

The NAC will continue to concentrate on being a program-focused cultural institution with a regional and national mandate to develop the performing arts in all disciplines.

Given the reduction in federal government funding, the NAC will continue to look for alternative delivery mechanisms to deliver its programs at a lower cost and to larger audiences. Co-productions are one example. In addition, it will pursue alternative funding sources, including fundraising, sponsorship and commercial operations.

SUMMARY INFORMATION

	1995/96	1994/95	1993/94	1992/93	1991/92
FINANCIAL SUMMARY ($ million); financial year ending August 31					
Financial Position					
Total assets	19.8	19.4	20.0	17.6	16.5
Loans from private sector	0.0	0.3	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	9.7	10.4	10.1	9.8	9.2
Operations					
Revenues	15.8	17.7	15.2	14.8	18.7
Net income	(19.5)	(20.4)	(21.7)	(21.5)	(21.0)
Funding from Canada					
Budgetary	20.6	15.6	24.2	21.5	19.7
Change in budgetary funding	32%	-36%	13%	10%	-19%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	296	262	285	281	307

National Capital Commission

Chairperson	Marcel Beaudry
Executive Vice-President and General Manager	Roger Légaré
Head Office	40 Elgin Street Ottawa, Ontario, K1P 1C7 Telephone: (613) 239-5555 Facsimile: (613) 239-5039 Web Site: http://www.capcan.ca
Incorporation and Status	1958 by the *National Capital Act* (R.S.C. 1985, c. N-4); amended in 1988 (S.C. 1988, c. 54); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Sheila Copps, P.C., M.P. Minister of Canadian Heritage
Auditor	Auditor General of Canada

Corporate Abstract

Mandate and Background

The National Capital Commission (NCC) prepares, plans for, and assists in the development, conservation and improvement of the National Capital Region (NCR). It is also responsible for organizing, sponsoring and promoting public activities and events in the NCR to enrich the cultural and social fabric of Canada.

Products and Services

The NCC provides leadership in promoting national pride and unity through the capital and its region, developing innovative programming and messages, and by implementing a responsible business approach to NCC operations. As a major landowner in the NCR, the NCC manages and maintains its own lands and looks after properties on behalf of others, including the Official Residences of Canada.

NCC's holdings include Gatineau Park, the Greenbelt and a variety of urban lands, as well as 256 kilometres of roads, paths and parkways, more than 30 bridges, and 750 leased properties.

Corporate Highlights

The revised *Plan for Canada's Capital* – the document that will guide the future development and use of NCC land – underwent intensive discussion with planning partners. This plan is slated for completion in 1997/98.

During the period in review, an agreement was reached to obtain, from private companies, property management and leasing services, as well as maintenance and recreational services in Gatineau Park.

The NCC introduced its own Web site offering orientation and information to electronic travellers from Canada and around the world.

Various initiatives were undertaken to promote and animate the National Capital Region. These included the development of an integrated delivery plan for activities promoting Canadian unity; the co-ordination of outreach and marketing; the opening of the Capital Infocentre; and the development of cost-effective partnerships.

Performance

During the period in review, the NCC worked to achieve its planning objectives through four activities. These included: 1) completing revision of the *Plan for Canada's Capital; 2)* continuing the planning cycle through the completion of various master and sector plans; 3) harmonizing NCC plans with those of local and regional governments; and 4) supporting the generation of sustainable revenue from land holdings.

The NCC also focused on a number of programming objectives including the development of an integrated delivery plan for promoting Canadian unity and celebration plans for the new millenium. It also developed Canada's Capital On-Line project, open the Capital Infocentre, and worked to reduce costs and increase user revenues.

1996/97 was a year of significant consolidation toward the goal of a smaller commission. The NCC continued to adjust to the effects of commercialization by selling its fleet of vehicles and other surplus equipment. Almost $2 million has been realized to date through the sale of surplus assets and the decommissioning of service buildings preparatory to sale or lease. The introduction of new technology, business practices and procedures during the year also helped to reshape activities within the smaller commission.

Over the past few years, the NCC has had to review every asset it owns to guarantee continuing relevance to the corporate mission. This process of rationalization will ultimately allow the NCC to redirect resources to key properties and programs, and to meet reduction targets. Among the initiatives implemented to address the challenges of

the 1990s was the NCC's 3D strategy: 1) divestiture of tax and maintenance responsibility for municipal-like assets; 2) disposal of real asset holdings that are surplus to the national interest; and 3) development of heritage assets and vacant lands.

Operating revenues reached $47 million in 1996/97, which represents an increase of $10.1 million over the previous year. This increase was largely due to the net gain on the disposal of land, buildings and equipment.

Total expenses excluding contributions amounted to $94.9 million compared to $98.3 million in 1995/96, which is equivalent to a decrease of $3.4 million. Nonetheless, contributions increased $32 million from last year, driven by the divestiture of several municipal-like assets. In the past, salaries and benefits were the largest category of expenditures; however, this has changed as a result of the NCC's downsizing and commercialization strategy. Goods and services are now the largest category of expenditures. To fulfil its obligations as a major landowner, the NCC paid $14.4 million in annual grants in lieu of taxes to municipalities.

Corporate Objectives for the Next Planning Period

The NCC's objectives are to continue to create pride and unity by making the National Capital Region a meeting place for all Canadians, by using the NCR to communicate Canada to Canadians, and by safeguarding and preserving national treasures in the Capital.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	396.2	407.2	377.7	369.9	362.5
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	357.7	355.2	327.9	330.0	330.2
Operations					
Revenues	47.0	36.1	24.0	21.6	24.0
Net income	(14.5)	10.5	(17.5)	(12.8)	(12.7)
Funding from Canada					
Budgetary	84.2	90.6	102.1	89.5	89.7
Change in budgetary funding	-7%	-11%	14%	0%	0%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	376	502	740	802	727

NATIONAL GALLERY OF CANADA

Chairperson	Jean-Claude Delorme
Director and Chief Executive Officer	Shirley L. Thomson
Head Office	380 Sussex Drive P.O. Box 427, Station A Ottawa, Ontario, K1N 9N4 Telephone: (613) 990-1985 Facsimile: (613) 990-9810 Web Site: http://national.gallery.ca
Incorporation and Status	July 1, 1990 by the *Museums Act* (S.C. 1990, c. 3); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Sheila Copps, P.C., M.P. Minister of Canadian Heritage
Auditor	Auditor General of Canada

Mandate and Background

Founded in 1880, the National Gallery of Canada has a mandate to develop, maintain and make known, throughout Canada and internationally, a collection of historic and contemporary works of art with special, but not exclusive, reference to Canada, and to further the knowledge, understanding and enjoyment of art among all Canadians.

Products and Services

The Gallery carries out its mandate through four broad activity areas: 1) adding to and preserving the collections of works of art; 2) educating and communicating; 3) housing and protecting the collections, visitors and staff; and 4) managing its staff and resources.

The Gallery also operates the Canadian Museum of Contemporary Photography (CMCP).

Corporate Highlights

The Gallery received 493,500 visitors, just shy of its target attendance figure of 500,000, and 378,250 visitors saw its travelling exhibitions. At the CMCP, 44,400 visitors came to the museum, and 163,600 saw its travelling exhibitions. In all, the Gallery and the CMCP attracted 1,080,000 visitors, matching last year's attendance of 1,088,000.

In its first full year of operation, the Gallery's Web site received about 74,500 visitors, each of whom spent an average of 4.3 minutes on the site. This Web site will be part of the Gallery's new Learning Centre and will be a vital link to audiences in Canada and abroad. Potentially, this will help the Gallery reach almost unlimited numbers of viewers.

Performance

For 1996/97, the Gallery's priorities were to reach out to the Canadian public; to optimize the financial situation of the Gallery; and to define the concept of board governance as it applies to the Gallery.

The Gallery acquired 326 works of art in all media: 161 Canadian works and 165 non-Canadian works. Of the 326 works acquired, 106 were by purchase and 220 by gift. The acquisitions by gift were approximately double the purchases whether measured in numbers or dollar values. The value of works acquired by gift was $1,552,000.

In an effort to further knowledge, understanding and enjoyment of the arts among Canadians and to make the collection better known, the Gallery presented 31 exhibitions and installations, and 14 travelling exhibitions, which were seen at 26 venues. The CMCP exhibition program was also well received and attracted 44,375 visitors to its galleries. In addition, the CMCP presented 19 travelling exhibitions to 37 Canadian locations and six other countries.

In 1996/97, the Gallery earned $4,723,000 from non-government sources, meeting its projection of $4,651,000. Working with corporate partners, the Gallery secured $435,000 in sponsorships, exceeding the $300,000 target. Admission revenues from special exhibitions were $543,000, which exceeded the goal of $500,000. Special Events generated some $137,000, which was lower than the previous year but still exceeded the 1996/97 target. Bookstore and parking revenues declined from the previous year due to a drop in attendance.

The Gallery continued to reduce its administrative costs. For instance, total expenditures on salaries and benefits were reduced by $342,000, and the percentage of resources allocated to accommodation and administration decreased from the previous year.

The board of the Gallery continued to explore the subject of corporate governance and to inform itself with a view to drafting terms of reference to assist it in carrying out its mandate.

Corporate Objectives for the Next Planning Period

The Gallery's objective is to continue to serve the public by stimulating the appreciation and enjoyment of art and to make art accessible to all.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	23.6	19.7	19.0	17.4	18.4
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	12.0	10.5	7.9	8.5	9.4
Operations					
Revenues	4.7	5.5	4.3	3.2	2.8
Net income	(28.4)	(31.8)	(34.4)	(29.6)	(29.8)
Funding from Canada					
Budgetary	29.8	34.4	34.4	28.7	29.3
Change in budgetary funding	-13%	0%	20%	-2%	-7%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	257	276	285	284	286

National Museum of Science and Technology Corporation

Chairperson	David W. Strangway
Director and Chief Executive Officer	Geneviève Sainte-Marie
Head Office	2380 Lancaster Road P.O. Box 9724, Station T Ottawa, Ontario, K1G 5A3 Telephone: (613) 991-3044 Facsimile: (613) 990-3636 Web site: http://www.nmstc.ca
Incorporation and Status	July 1, 1990 by the *Museums Act* (S.C. 1990, c. 3); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Sheila Copps, P.C., M.P. Minister of Canadian Heritage
Auditor	Auditor General of Canada

Mandate and Background

Under the *Museums Act*, the mandate of the National Museum of Science and Technology Corporation is to foster scientific and technological literacy throughout Canada by establishing, maintaining and developing a collection of scientific and technical objects with special, but not exclusive, reference to Canada, and by demonstrating the products and processes of science and technology, as well as their economic, social and cultural relationships with society.

Products and Services

The corporation disseminates knowledge of Canada's scientific and technological heritage through its two major institutions – the National Museum of Science and Technology (NMST) and the National Aviation Museum. It also manages the Agriculture Museum at Ottawa's Central Experimental Farm.

Corporate Highlights

In 1996, a fire destroyed one of the Agricultural Museum's showcase barns at the Central Experimental Farm in Ottawa. Construction of a new barn will begin early in the new fiscal year.

The corporation's accommodation strategy proposed a consolidation of its 11 buildings. The first phase of this strategy reduced the number of occupied buildings to eight by consolidating office space and some warehousing. Implementation of the strategy continued with the fit-up of a new conservation and restoration area in one of the collection storage buildings, which released additional exhibit space in the main museum building.

Performance

Overall, the corporation's museums received 675,000 visitors, which represents a slight increase over the previous year's attendance. This increase was attributed mainly to aggressive programming, advertising and media promotions aimed at local residents.

During the period in review, the corporation undertook various initiatives in furtherance of its mandate. For example, it adopted the "Transformation of Canada" theme to guide all collection development and public programming activities. It introduced new content for the museums' web sites to include a "What's New" page for children and the first two in a series of about 20 school programs aimed at teachers and students. The National Aviation Museum entered into an agreement with a major communications company to develop multimedia content that will be used in a new generation of trials on broadband technology in Canada.

Visitor satisfaction is of prime importance to the museums. With respect to the NMST, 91 percent of visitors were satisfied with their visit, exceeding its target by 11 percentage points. The National Aviation Museum also reported a high level of visitor satisfaction. Over 97 percent of visitors reported positively on their experience, surpassing its target by 17 percentage points.

The corporation completed year two of a four-year budget reduction plan to meet the government's expenditure reduction objectives. To accommodate the extension of the reduction program to 1998/99, the plan was reviewed and the implementation schedule was adjusted. The final phase of reductions will be completed by March 1998.

In an effort to reduce its dependency on government appropriations, the corporation has attempted to generate an increasing proportion of its operating budget from admissions, the sale of its products and services, and sponsorships and donations. The corporation has also generated financial and human resources by actively soliciting volunteers and members. In 1996, targets for each area of revenue generation were met or exceeded.

Corporate Objectives for the Next Planning Period

The corporation's objective is to continue to implement its strategies for the preservation of Canada's scientific and technological heritage and for the dissemination of knowledge about that heritage.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	11.6	11.0	9.7	9.3	9.4
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	7.3	7.1	5.3	6.1	5.4
Operations					
Revenues	3.7	3.3	3.0	2.2	1.6
Net income	(19.5)	(19.0)	(21.7)	(15.5)	(16.2)
Funding from Canada					
Budgetary	19.7	20.8	20.9	16.2	16.1
Change in budgetary funding	-5%	0%	29%	1%	-6%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	228	220	225	218	227

OLD PORT OF MONTREAL CORPORATION INC.

Chairperson	Bernard Lamarre
President and Chief Executive Officer	Pierre Émond
Head Office	333 rue de la Commune West Montreal, Quebec, H2Y 2E2 Telephone: (514) 283-5256 Facsimile: (514) 283-8423 Web site: http://www.svpm.ca
Incorporation and Status	1981 under the *Canada Business Corporations Act*; a wholly owned subsidiary of the Canada Lands Company Limited; directed by Order in Council (P.C. 1987-86) to report as if it were a parent Crown corporation; an agent of Her Majesty.
Appropriate Minister	The Honourable Alphonso Gagliano, P.C., M.P. Minister of Public Works and Government Services
Auditor	Auditor General of Canada

Mandate and Background

The Old Port of Montreal Corporation Inc. is a wholly owned subsidiary of the Canada Lands Company Limited. The corporation is responsible for promoting the development of the Old Port of Montreal site and developing, managing and maintaining the Crown property in that location.

Products and Services

The corporation, in consultation with the public and other levels of government, plans for the development of the Old Port site. Some of the activities and services at the Old Port include the Imax Theatre, Canada Day Celebrations, the Just for Laughs Festival, the Cirque du Soleil, the Clock Tower and 35 acres of park lands.

Corporate Highlights

During the period in review, the corporation set a new attendance record with over six million admissions to the site.

As part of the corporation's effort to renew management methods, training programs were extended to all personnel involved in customer service and information service. In addition, through customer satisfaction evaluations and enhanced co-ordination among its partners, the corporation improved its performance monitoring system.

The corporation's new programming policy enabled it to trim existing programming and simplify the evaluation of new projects. This helped the corporation to concentrate on developing projects that are likely to reinforce the site's identity.

Under the corporation's supervision, Public Works and Government Services Canada will restore the Clock Tower during the next two fiscal years.

Performance

Public Animation revenues fell by 30 percent from the previous year. The decline was mainly due to lower fall and winter attendance at the Imax theatre. The reduction in parking revenues was 4 percent as a result of the growing supply of parking spots in Old Montreal. The corporation also experienced a decrease in sponsorships, owing mainly to the fact that certain 1995 exhibitions and events were not presented in 1996.

The corporation achieved a self-financing rate of 72 percent rather than 77 percent as forecast. This is attributed to the decline in attendance at the Imax theatre. The following table summarizes the results achieved for the period ending March 31, 1997.

	1996 Budget	1996 Actual	1995 Actual
Revenues			
Public Animation Programs	3,927	**3,737**	5,349
Parking	2,297	**2,247**	2,346
Concessions and Exclusive Rights	1,611	**1,668**	1,995
Other	630	**636**	755
Total	***8,465***	***8,288***	***10,445***
Expenses			
Property Maintenance	4,326	**4,471**	4,114
Public Animation Programs	3,285	**3,154**	4,686
Administration	1,739	**1,788**	1,595
Communications	2,167	**2,119**	1,851
Total	***11,517***	***11,532***	***12,246***

Corporate Objectives for the Next Planning Period

The corporation's objective is to continue to fulfil its mission with the goal of achieving financial autonomy.

A key objective will be to prepare for the opening of Expotec-Canada, which is slated for the fall of 1999. Expotec-Canada will be a science and technology centre focused on public animation and education. Its purpose will be to explain how things work through exhibits and activities that are constantly renewed.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	1.4	2.1	2.0	4.0	8.0
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	0.0	0.0	0.0	0.0	0.0
Operations					
Revenues	8.3	10.4	8.9	7.8	5.9
Net income	(3.5)	(2.3)	(3.6)	(5.0)	(22.3)
Funding from Canada					
Budgetary	3.8	3.5	3.0	9.7	21.5
Change in budgetary funding	9%	17%	-69%	-55%	-47%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	77	72	69	67	74

PACIFIC PILOTAGE AUTHORITY

Chairperson and Chief Executive Officer	Dennis B. McLennan
Head Office	300 – 1199 West Hastings Street Vancouver, British Columbia, V6E 4G9 Telephone: (604) 666-6771 Facsimile: (604) 666-1647
Incorporation and Status	1972 pursuant to the *Pilotage Act* (R.S.C. 1985, c. P-14); Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The Pacific Pilotage Authority was established in 1972 to operate, maintain and administer a safe and efficient pilotage service in the coastal waters of British Columbia.

Products and Services

In addition to providing pilotage services, the authority with the approval of the Governor in Council makes regulations that prescribe the compulsory pilotage areas; the ship or classes of ships that are subject to compulsory pilotage; when compulsory pilotage may be waived; the tariff rates for pilotage; and the classes of licences and classes of pilotage certificates that may be issued.

Corporate Highlights

Over the past four years, the Fraser River assignments have continued to follow a downward trend, declining from 892 in 1992 to 690 during 1996. The Fraser River operation is currently under review. A document entitled *Fraser River Pilotage Integration – Discussion Paper* was released at the end of the year.

After consultation with and approval of the Chamber of Shipping, the authority initiated a tariff increase of 3.25 percent effective January 1, 1997. This tariff has adjusted both the Sandheads and Cape Beale launch rates so that both locations are expected to be financially self-sufficient during 1997.

The authority signed a five-year contract with the British Columbia Coast Pilots Ltd.

Performance

The authority recorded a net income of $180,000 in 1996, largely due to a traffic surge that commenced in August and continued throughout the balance of the year. Revenues and expenses in 1996 were $1.8 million and $0.5 million, respectively, higher than in 1995.

With the implementation of a port-to-port charge, which contributed $315,000 to 1996 revenues, the authority continued its policy of eliminating any cross-subsidization within its tariff structure. The port-to-port definition was modified effective January 1, 1997 to include ships departing an anchorage in one port and entering another port. These changes, combined with strict cost controls and new initiatives, will contribute towards the projected surplus of $531,000 for 1997.

The authority dispatched 13,403 assignments, with 99.86 percent being completed without incident.

In 1996 the authority spent $514,000 on training for apprentice pilots and for ongoing training for pilots. Six apprentices were licensed during 1996, which helped to reduce callbacks by 19 percent compared to 1995.

Corporate Objectives for the Next Planning Period

The authority is committed to ensuring that safe, reliable and efficient marine pilotage remains its highest priority. In addition, the authority continues to place great emphasis on consulting with all users of pilotage services in order to more effectively serve the industry.

During 1997 the authority will further emphasize a "Skills Enhancement Program" designed to cover all senior employee and contract pilots.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	5.8	5.6	6.4	7.9	8.0
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	2.3	2.2	3.3	4.9	4.8
Operations					
Revenues	36.0	34.2	33.7	31.0	32.8
Net income	0.2	(1.1)	(1.6)	0.1	1.7
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	167	170	168	171	173

PETRO-CANADA LIMITED

Chairperson	Robert Hamilton
President and Chief Executive Officer	Joy F. Kane
Head Office	c/o Department of Finance L'Esplanade Laurier 140 O'Connor Street Ottawa, Ontario, K1A 0G5
Incorporation and Status	1975 by the *Petro-Canada Act* (R.S.C. 1985: c. P-11); continued as Petro-Canada Limited on February 1, 1991 under the *Petro-Canada Public Participation Act*; Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Paul Martin, P.C., M.P. Minister of Finance
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

Petro-Canada Limited (PCL) was the parent Crown corporation of Petro-Canada, which was privatized in July 1991. Upon privatization, Petro-Canada refinanced its previously government-backed debt, with the proceeds going to PCL.

Corporate Profile

PCL holds a portfolio of high quality securities whose principal and interest payments match or closely match the corporation's obligations on the outstanding bonds.

Corporate Highlights

In 1996, PCL's operations were limited in scope. They involved managing an investment portfolio of U.S. government and agency securities, and Export Development Corporation notes. These securities, making up about 99 percent of the portfolio, are considered to be risk free. The remaining 1 percent consists of provincial government

securities. Operations also encompassed the corporation's meeting of its obligations on the U.S. $298,364,000 worth of outstanding bonds.

In 1996, PCL had net earnings of $1 million. Cash and short-term deposits were $3 million at December 31, 1996.

Corporate Objectives for the Next Planning Period

Petro-Canada Limited will continue to settle outstanding Petro-Canada bonds as they mature.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	448.0	524.0	554.0	526.0	519.0
Loans from private sector	409.0	479.0	505.0	479.0	460.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	3.0	2.0	1.0	0.0	7.0
Operations					
Revenues	40.0	43.0	45.0	42.0	146.0
Net income	1.0	1.0	1.0	1.0	3.0
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	8.0	0.0
EMPLOYMENT	0	0	0	0	0

PORT OF QUEBEC CORPORATION

Chairperson	René Paquet
President and Chief Executive Officer	Ross Gaudreault
Head Office	150 Dalhousie Street P.O. Box 2268 Quebec City, Quebec, G1K 7P7 Telephone: (418) 648-3558 Facsimile: (418) 648-4160 Web Site: http://www.portquebec.ca
Incorporation and Status	1984 by letters patent of incorporation pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Mallette Maheu

CORPORATE ABSTRACT

Mandate and Background

The Port of Quebec Corporation was established in 1984 to administer, manage and control the Quebec City harbour, and works and property within the harbour.

Products and Services

The corporation is an autonomous local port corporation that provides services for Canada's international shipping trade in the Quebec City harbour. The Port of Quebec is the oldest port in the North American market.

The port's business includes the handling of liquid and solid bulk, grain, chemicals and general non-containerized goods.

Corporate Highlights

In June 1996, the Minister of Transport introduced Bill C-44, the Canada Marine Act, in the House of Commons. The proposed legislation aimed to modernize and streamline the marine management and regulatory regime and foster further commercialization and rationalization. The corporation indicated that it was ready to take up the challenges likely to arise from the new policy and from increasing competition in international trade. Bill C-44 died on the order paper with the April 1997 dissolution of Parliament. On October 2, 1997, the minister re-introduced the proposed legislation in the House of Commons as Bill C-9.

The federal government forgave a $6.3 million obligation of the Canada Port Corporation's (CPC) Interport Loan Fund due to Canada that was equivalent to the forgiveness by CPC of the Port of Quebec Corporation's loans.

The tonnage handled of ore and concentrates was the highest in six years. Chemical product volumes were one-and-a-half times 1995 volumes and four times those recorded for 1993; these included various new products being handled. A new hydrogen peroxide terminal was also established at the port.

The rudiments of a new labour contract that would cover the port's stevedores and longshoremen were developed by both parties with the help of the Société des arrimeurs de Québec that was founded in January 1996. The corporation indicated that the port could reach its full potential as the nerve centre for the shipment of general non-containerized goods were a different labour contract in place than at present.

Performance

Despite new traffic, 1996 tonnage at the Port of Quebec fell 3 percent from 1995 to 17.2 million tonnes. The decline was the result of lower solid bulk traffic than expected. In 1996, 6.1 million tonnes of solid bulk were handled – 7.5 percent less than in 1995. Ore and concentrates, meanwhile, posted the highest figures in six years – 2 million tonnes – a hike of 6 percent over 1995. The liquid bulk handled reached the 10.9 million-tonne mark. The tonnage of general goods handled at the Port dipped 9 percent from 1995 figures to 265,000 tonnes. Granite and marble and powdered milk were among the top performing goods. Although total grain tonnage of $3.2 million tonnes was 14 percent less than in 1995, the nearly 700,000 tonnes of American corn that was shipped was a record for recent years.

Total revenue of $13.2 million in 1996 was 8 percent higher than that in 1995. Net earnings were $466,844, compared to $35,231 in 1995. The corporation's 1996 operating costs were $12.6 million, compared to $12.1 million in 1995. Interest expense declined to $127,853 in 1996 from $531,775 in the previous year.

Corporate Objectives for the Next Planning Period

The Port of Quebec Corporation's major objectives are to:

- Increase operating income in 1997 and subsequent years;
- Control and improve the quality of port assets to ensure its long-term future;
- Ensure that St. Lawrence interests are ready to face Coast Guard cost-recovery initiatives;
- Enhance staff productivity and motivation;
- Increase regional support for port commercial activities;
- Improve quality of the environment in conjunction with interested parties.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	61.9	61.6	61.8	64.1	64.8
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	59.1	52.3	52.3	54.3	57.1
Operations					
Revenues	13.2	12.2	11.7	11.1	14.4
Net income	0.5	0.0	(2.0)	(2.9)	1.0
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	57	58	88	88	96

PRINCE RUPERT PORT CORPORATION

Chairperson	Rhoda Witherly
President and Chief Executive Officer	Donald H. Krusel
Head Office	110 Third Avenue West Prince Rupert, British Columbia, V8J 1K8 Telephone: (250) 627-7545 Facsimile: (250) 627-7101 Web Site: http://www.rupertport.com
Incorporation and Status	1984 by letters patent of incorporation pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	KPMG

CORPORATE ABSTRACT

Mandate and Background

The Prince Rupert Port Corporation was established in 1984 to administer, manage and control the Prince Rupert harbour, and works and property within the harbour.

Products and Services

The corporation is an autonomous local port corporation that provides services for Canada's international shipping trade in the Prince Rupert harbour.

The port's business includes the handling of grain, pulp, seafood, coal, forest products, and ferry and cruise ship traffic.

Corporate Highlights

An important area of activity for the corporation was the preparation for and involvement in the Standing Committee on Transport hearings relative to Bill C-44, the proposed Canada Marine Act. Bill C-44 died on the order paper with the April 1997 dissolution of Parliament. On October 2, 1997, the Minister of Transport re-introduced the proposed legislation in the House of Commons as Bill C-9.

Grain shipments through the Port of Prince Rupert continued to decline from their 1994 peak. This was due to the August 1, 1995 elimination of the *Western Grain Transportation Act* subsidies for the shipment of grain that resulted in the port becoming the higher cost route for the export of grain through the west coast. The corporation will continue to promote knowledge of the inherent problems of the existing regulated rail rate structure and of the offsetting economic advantages of shipping through Prince Rupert in its marketing and public communication initiatives in the upcoming years.

The corporation's business development activity increased dramatically again in 1996. The corporation undertook various initiatives to meet its long-term vision. It explored different business opportunities for developing a liquid bulk terminal at Prince Rupert and it made progress in increasing the pulp traffic over Fairview Terminal by handling a test shipment for a pulp shipper who was not a current exporter through the Port of Prince Rupert.

Performance

Traffic at the Port of Prince Rupert totalled 10.1 million tonnes – a decrease of 12 percent compared to 1995. This drop in volume was mainly due to a decrease in wheat exports. Peaking at 5.5 million tonnes in 1994, wheat exports totalled only 3.5 million tonnes in 1996. About 55,000 tonnes of barley malt, a commodity not previously exported through Prince Rupert, were exported through the specialty grain and agricultural products handling facility at Fairview Terminal. Coal and lumber traffic also declined. During 1996, lumber tonnage decreased from the previous year by 13 percent to 298,116 tonnes, and coal was down by 9 percent. Ferry and cruise passenger traffic dropped by about 6 percent to 176,000 passengers.

The corporation reported operating revenues of $12.5 million compared to $12.6 million in 1995. Net income totalled $742,654, which represents a 13-percent increase over last year.

In 1996, the federal government forgave $5 million in loans by Canada to the corporation. The corporation's 1996 interest expense of nearly $1.2 million was $437,249 lower than in 1995.

In early 1997, after the corporation's 1996 financial year-end, the federal government also forgave $2.4 million that represented forgone revenue due to the Crown as a result of early payment of loans.

Corporate Objectives for the Next Planning Period

The Prince Rupert Port Corporation's major objectives are to:

- Reverse the deterioration of current traffic levels;
- Increase major commodities handled from three to at least five;
- Increase port recognition by all stakeholders in the traffic corridor;
- Study the feasibility of increased local control of port terminal facilities and ancillary services.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	112.3	111.7	111.6	111.7	111.5
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	10.0	15.3	15.8	16.2	16.5
Shareholder's equity	100.7	95.0	94.4	93.5	93.6
Operations					
Revenues	13.3	13.7	13.2	13.5	14.3
Net income	0.7	0.7	0.9	(0.1)	0.9
Funding from Canada					
Budgetary	5.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	(5.0)	0.0	0.0	0.0	48.3
Payments to Canada					
Loan repayments	0.3	0.4	0.4	0.4	53.2
Dividends	0.0	0.0	0.0	0.0	0.1
EMPLOYMENT	17	17	17	17	16

QUEENS QUAY WEST LAND CORPORATION

Chairperson and President	David Ellis
Head Office	Suite 1500 200 King Street West Toronto, Ontario, M5H 3T4 Telephone: (416) 974-9700 Facsimile: (416) 974-9275 Web site: http://www.clc.ca
Incorporation and Status	1936 as Terminal Warehouses Ltd. under the *Ontario Companies Act*; July 14, 1978, as Harbourfront Corporation, under the *Business Corporations Act of Ontario*; continued under the *Canada Business Corporations Act*, December 21, 1984; Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.
Appropriate Minister	The Honourable Alfonso Gagliano, P.C., M.P. Minister of Public Works and Government Services
Auditor	Auditor General of Canada

Mandate and Background

Queens Quay West Land Corporation was responsible for operating, managing, maintaining and developing the Harbourfront site in Toronto. The corporation's mandate is to dissolve itself once it fulfils its remaining obligations.

Products and Services

In August 1996, the management of Queens Quay West Land Corporation was transferred from the Canada Development Investment Corporation to the Canada Lands Company CLC Limited, which provides staff, facilities and corporate administration. In addition, as the need arises, it also continues to retain other consultants and advisors to assist with the implementation of its mandate. As a result of reduced operations and restructuring, Queens Quay West Land Corporation has no employees.

Corporate Highlights

Prior to the period in review, the dissolution of Queens Quay West Land Corporation had been delayed pending a review of alternate sources of funding for the Harbourfront Centre. The May 1996 release of the Monahan Report marked the end of this delay and enabled the corporation to proceed with the dissolution.

Performance

The corporation continued to make progress towards the fulfilment of the City of Toronto Implementation Agreement.

Corporate Objectives for the Next Planning Period

The corporation's objectives are to:

- Transfer parkland to the City of Toronto, settle road and public facility infrastructure improvement matters, and to make payments to the city pursuant to the Implementation Agreement;
- Complete various contracts and agreements to prepare the remaining properties for sale and the corporation for dissolution; and
- Determine a funding vehicle for the Harbourfront Centre for the payment of the federal government's commitment over the next four fiscal years.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	3.0	5.8	8.5	23.5	23.6
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	45.8	45.8	45.8	45.8	25.1
Shareholder's equity	(44.7)	(42.5)	(39.9)	(26.0)	(8.5)
Operations					
Revenues	1.7	3.0	3.6	3.8	4.4
Net income	(2.2)	(2.6)	(14.9)	(8.2)	(2.3)
Funding from Canada					
Budgetary	6.7	7.5	9.8	0.0	0.0
Change in budgetary funding	-11%	-23%	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	20.7	10.4
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	0	0	6	5	6

ROYAL CANADIAN MINT

Chairperson	José Blanco
President and Master of the Mint	Danielle V. Wetherup
Head Office	320 Sussex Drive Ottawa, Ontario, K1A 0G8 Telephone: (613) 993-3500 Facsimile: (613) 952-8342 Web Site: http://www.rcmint.ca
Incorporation and Status	1969 by the *Royal Canadian Mint Act* (R.S.C. 1985, c. R-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable Alfonso Gagliano, P.C., M.P. Minister of Public Works and Government Services
Auditor	Auditor General of Canada

Mandate and Background

The Royal Canadian Mint mints coins in anticipation of profit and carries out other related activities. Founded in 1908 as a branch of the Mint of the United Kingdom, its operations were devolved to the Crown in right of Canada in 1931. Initially a departmental agency of the government, it was incorporated by legislation in 1969. In 1989, a share capital structure was created for the Mint, and shares were issued to Canada.

Products and Services

The Royal Canadian Mint is responsible for minting the nation's circulation coins, and offers a wide range of specialized, high-quality coinage products and related services on an international scale.

The Mint owns two facilities. The Ottawa facility includes the corporate head office, the gold refinery and production facilities for numismatic and bullion coins, medals and medallions. The Winnipeg Plant produces all of Canada's circulation coinage as well as circulation coinage for numerous foreign countries.

Corporate Highlights

The Mint broke into a number of new markets, most notably Hong Kong, where it contracted to produce a commemorative gold coin to mark the 1997 reunification with China.

Sales of foreign coinage doubled with contracts for 1.6 billion coins already signed for 1997, compared to sales of 814 million coins for the previous year.

As a pilot project, the Mint implemented Activity Based Costing (ABC). ABC breaks down the financial walls between departments by allowing managers to look at costs in a new, cross-sectoral way.

Performance

In 1996, the Mint returned to profitability after experiencing losses in 1994 and 1995. This success came largely from the 1995 adoption of a turnaround plan, which set out strategies and actions aimed at revenue generation, cost control, overhead reduction, and investing in people and equipment. The Mint reported close to $1.7 million in pre-tax profits, exceeding the projected $1 million in profits by more than 60 percent.

The success of the new $2 coin products generated over $9.6 million in revenues. Numismatic products accounted for 50 percent of the Mint's business during the period in review – an increase over the 35-percent level recorded during the previous year.

The Mint appealed to employees to help reduce manufacturing costs by $700,000. As a direct result of employee ingenuity, the Mint reduced manufacturing costs by approximately $2.5 million.

The Mint initiated a comprehensive market research program, beginning with a survey of the numismatic market in 1996, which was aimed at helping the Mint better define customer priorities. Supported by a comprehensive multimedia advertising strategy, the Mint delivered a number of successful campaigns, including Gold, Wildlife and Aviation. In addition, to expand its mailing lists in targeted markets, the Mint formed a number of promotional partnerships. The Mint also embraced the Internet as the communications tool of the future in order to develop longer-term relationships in the market place.

Corporate Objectives for the Next Planning Period

The Royal Canadian Mint's objective is to continue to define and implement strategies that address external challenges and opportunities, meet the objectives of its shareholder, and ensure its success as a profitable organization.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	85.5	90.7	82.5	92.8	102.7
Loans from private sector	0.0	6.4	0.0	0.0	0.0
Loans from Canada	0.1	0.2	2.8	5.5	8.2
Shareholder's equity	60.8	59.3	60.6	69.1	68.3
Operations					
Revenues	317.3	310.6	310.4	356.8	378.0
Net income	1.5	(1.3)	(3.5)	7.1	9.0
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.1	2.7	2.7	2.7	2.7
Dividends	0.0	0.0	5.0	6.3	0.7
EMPLOYMENT	510	550	563	610	763

SAINT JOHN PORT CORPORATION

Chairperson	Peter S. Glennie
President and Chief Executive Officer	Captain Alwyn G. Soppitt
Head Office	133 Prince William Street P.O. Box 6429, Station A Saint John, New Brunswick, E2L 4R8 Telephone: (506) 636-4869 Facsimile: (506) 636-4443
Incorporation and Status	1986 by letters patent pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Ernst & Young

CORPORATE ABSTRACT

Mandate and Background

The Saint John Port Corporation was established in 1986 to administer, manage and control the Saint John harbour, and works and property within the harbour.

Products and Services

The corporation is an autonomous local port corporation that provides services for Canada's international shipping trade in the Saint John harbour.

The port's business includes the handling of potash, forest products, salt, sugar, petroleum products and container traffic.

Corporate Highlights

Traffic records were set in most sectors; port assets had increased utilization; an enhanced capital and major maintenance program finalized a six-year capital commitment; new forest product and dry bulk facilities were developed.

A restructuring of port staff resulted in significantly reduced administration overhead.

The federal government forgave nearly $18.1 million in term loans. In addition, the balance of a loan of $19.7 million provided by the Province of New Brunswick – the repayment of which had been linked to the net operating income of the Rodney Terminal Complex – was forgiven by the New Brunswick Transportation Authority.

The corporation continues to work closely with the users through the Saint John Gateway Council. A number of task forces have been established to deal with channel dredging, police security, taxation, marine service fees and pilotage.

Performance

Total traffic through the port exceeded 21 million tonnes – a 12 percent increase over 1995. Record tonnage was recorded in potash and forest products. Salt, sugar and oil were up 53 percent, 15 percent and 11 percent respectively.

The corporation reported a net profit of $2.1 million – up tenfold over last year. This financial success was primarily due to the elimination of the federal and provincial debts, resulting in savings of $1.6 million in interest payments; record traffic yielding increased gross revenues; and a restructuring of personnel and implementation of a cost reduction program.

As part of its diversification strategy, the corporation added the commodities of fish meal, fish oil and diammonium phosphate to its traffic base. These products serve the aquaculture and agriculture industries in New Brunswick.

Corporate Objectives for the Next Planning Period

The Saint John Port Corporation's major objectives are to:

- Strengthen its current traffic base and develop new business opportunities;
- Continue its multi-year Facilities Development Program;
- Ensure protection of the environment; and
- Locate alternative users for under-utilized assets.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	69.5	64.1	64.1	84.5	88.5
Loans from private sector	0.0	19.7	19.7	19.7	19.7
Loans from Canada	0.0	18.1	18.1	18.1	20.1
Shareholder's equity	63.9	24.0	23.9	44.2	45.9
Operations					
Revenues	13.9	12.6	12.5	12.1	12.0
Net income	2.1	0.2	(20.4)	(1.7)	0.2
Funding from Canada					
Budgetary	18.1	0.0	0.0	0.0	0.5
Change in budgetary funding	-	-	-	-100%	0%
Non budgetary (loans and investments)	(18.1)	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	2.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	36	36	36	36	48

ST. JOHN'S PORT CORPORATION

Chairperson	Melvin Woodward
Port Manager and Chief Executive Officer	David J. Fox
Head Office	3 Water Street P.O. Box 6178 St. John's, Newfoundland, A1C 5X8 Telephone: (709) 772-4582 Facsimile: (709) 772-4689 E-mail: sjpc.richard@ns.sympatico.ca
Incorporation and Status	1985 by letters patent pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Doane Raymond

Mandate and Background

The St. John's Port Corporation was established in 1985 to administer, manage and control the St. John's harbour, and works and property within the harbour.

Products and Services

The Port of St. John's is an autonomous local port corporation that provides services for Canada's international shipping trade in St. John's harbour. The port's business includes the handling of containerized general cargo, new vehicles and liquid bulk.

Corporate Highlights

The corporation noted that it expected to achieve Canada Port Authority status under the proposed Canada Marine Act (Bill C-44). Bill C-44 died on the order paper with the April 1997 dissolution of Parliament. On October 2, 1997, the Minister of Transport re-introduced the proposed legislation in the House of Commons as Bill C-9.

The Hibernia consortium has selected the Port of St. John's as the site of a shore base facility to service its offshore production operation. It is estimated that 116,000 tonnes of cargo will be handled at the supply base annually.

In conjunction with the City of St. John's, the Province of Newfoundland and Labrador, and the New Atlantic Frontier Association, the corporation continued to promote its cost-shared marketing and promotional activities aimed at attracting cruise vessels. It is also co-operating with cruise-oriented ports on both sides of the Atlantic to promote the Viking Trail.

Performance

Total traffic through the Port of St. John's amounted to 832,455 tonnes – a 3.9-percent decrease from the 1995 total of 866,191 tonnes. Containerized general cargo increased by 2.2 percent compared to the previous year. New vehicles shipped through the port totalled 12,144 units compared to 13,466, which represents a decline of 9.8 percent. The total volume of liquid bulk discharged was on par with 1995.

During 1996, the port collected charges in respect of 706 vessels compared to 494 the previous year. This 43-percent increase in commercial vessel traffic was attributed to the port's decision to levy port charges on all government vessels using the corporation's facilities.

The corporation reported a net income of $609,000 compared to $354,000 in 1995. These financial results are largely attributed to a 5-percent increase in operating revenues, as well as a substantial reduction in repair and maintenance projects, which contributed to a 4-percent decrease in expenses.

Corporate Objectives for the Next Planning Period

The major objectives of the St. John's Port Corporation are to:

- Strengthen the corporation's financial position while providing services consistent with the existing and anticipated needs of the business environment;
- Improve the port's overall market position, especially that of inbound general cargo;
- Improve the identification, acquisition and use of resources required by each operating activity and responsibility centre;
- Develop and maintain an image of corporate social responsibility.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	17.6	16.8	16.5	16.3	16.9
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	1.1
Shareholder's equity	16.7	16.1	15.7	15.4	14.9
Operations					
Revenues	3.4	3.2	3.3	3.4	3.7
Net income	0.6	0.4	0.4	0.5	0.7
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	1.0	1.6
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	13	14	13	13	14

St. Lawrence Seaway Authority, The

Acting President	Michel Fournier
Head Office	Constitution Square 14th Floor, Suite 1400 360 Albert Street Ottawa, Ontario, K1R 7X7 Telephone: 613) 598-4600 Facsimile: (613) 598-4620 Web Site: http://www.seaway.ca
Incorporation and Status	1954 pursuant to section 3 of the *St. Lawrence Seaway Authority Act* (R.S.C. 1985, c. S-2); Schedule III, Part I of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Auditor General of Canada

Mandate and Background

Established in 1954, The St. Lawrence Seaway Authority constructs, operates, and maintains canals, bridges, works and other property related to the deep waterway between the Port of Montreal and Lake Erie, which is known as the St. Lawrence Seaway.

Products and Services

The authority constructed the St. Lawrence Seaway and operates it in conjunction with an authority in the United States. It is responsible for 13 locks in Canadian territory and four high-level bridges traversing the St. Lawrence River. Two locks in the United States are operated by the St. Lawrence Seaway Development Corporation. Tolls may be established by filing with the Canadian Transportation Agency or by agreement between Canada and the United States.

A wholly owned subsidiary, The Seaway International Bridge Corporation, Ltd., was established in 1962. It manages the international bridge at Cornwall, Ontario. Two bridges in Montreal are managed by The Jacques Cartier and Champlain Bridges

Incorporated, which is also a wholly owned subsidiary of The St. Lawrence Seaway Authority. The authority administers the Canadian span of the Thousand Islands Bridge. A third wholly owned subsidiary, Great Lakes Pilotage Authority, Ltd., has been designated as a parent Crown corporation for the purposes of the *Financial Administration Act*.

Corporate Highlights

In June 1996, the Minister of Transport introduced Bill C-44, the Canada Marine Act, in the House of Commons. This set the stage for discussions concerning the transfer of the management of the Canadian section of the Seaway to a non-profit corporation controlled by a consortium of Seaway users. Bill C-44 died on the order paper with the April 1997 dissolution of Parliament. On October 2, 1997, the Minister of Transport reintroduced the proposed legislation in the House of Commons as Bill C-9.

The notion of a binational agency integrating the Canadian and American operations of the Seaway system was introduced by the House of Commons Standing Committee on Transport. On June 5, 1996, the U.S. Secretary of Transportation and Canada's Minister of Transport established a new U.S./Canadian working group to examine the possibility of greater co-operation between the two countries in managing Seaway services. Work is still in progress.

The authority undertook various quality improvement initiatives during the year. These included the development of transit time standards, the introduction of service teams combining operational and maintenance functions, and more accurate and reliable information on vessel location. Other initiatives included the establishment of teams to deal with tolls and statistics, traffic management, and maintenance planning and delivery.

Performance

In 1996/97 the authority recorded a net income of $2.9 million, compared to the previous year's net income of $4.6 million. The final net income for 1996/97 was affected by special charges of $6.7 million for the abandonment of railway bridges and $0.5 million for the costs related to the commercialization of the Seaway.

Total 1996/97 revenues increased by 5.8 percent over the previous year to reach $93.4 million; of this, $76.7 million was from tolls. Operating expenses were reduced to $81.9 million or 0.5 percent below 1995 levels, and the authority's staff was reduced by 22 positions to 711.

For the second year in a row, the authority was able to fund all capital expenditures internally from the cash flow generated in the current year. In addition, $1.9 million has been set aside for future operating and capital expenditure requirements.

In an effort to expand its market share, the authority undertook various promotional activities, including trade missions, conferences, exhibitions and client meetings in Europe and North America.

The following table highlights the authority's results achieved against its objectives for 1996/97. The information excludes the Thousand Islands Bridge and the authority's subsidiaries.

Performance Results	1996/97 Budget	1996/97 Actual	1995/96 Actual
Cargo traffic in millions of tonnes:			
Montreal/Lake Ontario section	35.8	**38.1**	38.8
Welland Canal	38.2	**41.1**	39.6
Net income (loss) ($ million)	(3.6)	**0.04**	1.7
Cash provided from operations ($ million)	9.9	**22.2**	20.3
Capital expenditures ($ million)	20.6	**11**	8.1
Established positions	724	**711**	733

Corporate Objectives for the Next Planning Period

The authority will continue to reduce the St. Lawrence Seaway's manageable costs, consistent with the Vision 2002 strategy developed by the authority in 1992. In addition, the authority will continue to be client focused and to strive for continued excellence using imagination, technology and sound business practices as appropriate.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	609.8	601.7	592.9	577.8	593.1
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	578.2	575.2	570.6	554.1	558.1
Operations					
Revenues	93.4	88.3	90.6	76.4	72.0
Net income	2.9	4.6	17.4	(4.0)	(8.9)
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	37.4
Change in budgetary funding	-	-	-	-100%	30%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	711	730	731	741	821

STANDARDS COUNCIL OF CANADA

Chairperson	Richard Lafontaine
Executive Director	Michael B. McSweeney
Head Office	Suite 1200 World Exchange Plaza 45 O'Connor Street Ottawa, Ontario, K1P 6N7 Telephone: (613) 238-3222 Facsimile: (613) 995-4564 Web Site: http://www.scc.ca
Incorporation and Status	1970 by the *Standards Council of Canada Act* (R.S.C. 1996, c. 24); Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.
Appropriate Minister	The Honourable John Manley, P.C., M.P. Minister of Industry
Auditor	Auditor General of Canada

CORPORATE ABSTRACT

Mandate and Background

The mandate of the Standards Council of Canada is to promote efficient and effective voluntary standardization in Canada, where standardization is not expressly provided for by law. These activities are aimed at advancing the national economy, supporting sustainable development, and benefiting the health, safety and welfare of workers and the public. These functions are also intended to assist and protect consumers, facilitate domestic and international trade, and further international co-operation in relation to standardization.

Products and Services

The council promotes the participation of Canadians in voluntary standards activities. It promotes public- and private-sector co-operation in relation to voluntary standardization, and co-ordinates and oversees the efforts of persons and organizations involved in the National Standards System. The council represents Canada's interests internationally through its membership in the International Organization for Standardization (ISO) and

the International Electrotechnical Commission (IEC). It also serves as the repository and focal point for national and international standards for distribution to Canadian industry.

Corporate Highlights

As a result of legislation passed by Parliament in November 1996, the council was given a revised mandate, structure and powers. Specifically, the legislation provides for an institutional infrastructure that supports and encourages a "Team Canada" approach to standardization. It ensures that the council's membership is drawn from a broad spectrum of interests in the private sector as well as the federal and provincial governments. In addition, these provisions reinforced the council's ability to effect national collaboration by establishing a Provincial-Territorial Advisory Committee and a Standards Development Organizations Advisory Committee.

The council pursued a number of mutual and multilateral recognition agreements with accrediting bodies in other countries. These agreements have resulted in a variety of tangible benefits for Canadians. For instance, agreements with United States accreditation bodies made it possible for Canadian motor carriers to use Standards Council accredited laboratories to meet U.S. drug testing regulations. Similarly, exporters of information technology equipment were given permission by U.S. authorities to use Standards Council accredited laboratories to do required radio frequency emission and interference testing.

During 1996/97, the council answered 10,316 requests for standards information.

The council continued to expand its use of the Internet as a means of communication and promotion. The council's web site averaged over 50,000 hits per month. In March 1997, the Web site received its 750,000th visitor.

Performance

Not including parliamentary appropriations, the council recorded total revenue of $5.1 million compared to $4.6 million in the previous year – an increase of 11 percent. This increase resulted in large measure from major contracts awarded under Industry Canada's Standards Initiative Program and from increased conformity assessment accreditation fees.

Total expenses amounted to $10.1 million – an increase of 4 percent from the previous year. Salaries and employee benefits increased as positions that had remained vacant throughout much of the previous year were filled.

Corporate Objectives for the Next Planning Period

The council will continue to promote the competitiveness of Canadian industry and enhance the quality of life for Canadians through standardization.

SUMMARY INFORMATION

	1996/97	1995/96	1994/95	1993/94	1992/93
FINANCIAL SUMMARY ($ million); financial year ending March 31					
Financial Position					
Total assets	4.2	3.4	3.3	2.8	2.6
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	2.4	2.2	1.9	1.6	1.2
Operations					
Revenues	5.1	4.6	4.2	3.3	3.1
Net income	0.2	0.2	0.4	0.3	0.2
Funding from Canada					
Budgetary	5.2	5.3	5.4	5.6	5.8
Change in budgetary funding	-2%	-3%	-3%	-5%	-3%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	72	72	68	60	63

VANCOUVER PORT CORPORATION

Chairperson	Carole Taylor
President and Chief Executive Officer	Captain Norman C. Stark
Head Office	1900 Granville Square 200 Granville Street Vancouver, British Columbia, V6C 2P9 Telephone: (604) 666-8966 Facsimile: (604) 666-8239 Web Site: http://www.portvancouver.com
Incorporation and Status	1983 by letters patent of incorporation pursuant to subsection 25(1) of the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9); Schedule III, Part II of the *Financial Administration Act*; an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	KPMG

CORPORATE ABSTRACT

Mandate and Background

The Vancouver Port Corporation was established in 1983 to administer, manage and control the Vancouver harbour, and works and property within the harbour.

Products and Services

The corporation is an autonomous local port corporation that provides the services necessary for Canada's international shipping trade in the Vancouver harbour.

The port handles coal, grain, sulphur, potash, chemicals, wood, pulp and lumber, as well as cruise traffic.

Corporate Highlights

The corporation made representations to the House of Commons Standing Committee on Transport regarding Bill C-44, the proposed Canada Marine Act. This Bill proposed

immense change for the port community through the creation of autonomous Canada port authorities at successful commercial ports, the divestiture of ports to other management groups, the closure of unnecessary port facilities, and the dissolution of the Canada Ports Corporation. Bill C-44 died on the order paper with the April 1997 dissolution of Parliament. On October 2, 1997, the Minister of Transport re-introduced the proposed legislation to the House of Commons as Bill C-9.

The corporation initiated or participated in several significant projects during the year. It entered into a sister port relationship with the Port of Guangzhou in southern China. The corporation now has its own office in Beijing and sister ports at Dalian in the north, Shanghai in the centre and Guangzhou in the south. It hosted two international conferences.

Development of the new, state-of-the-art container terminal neared completion during 1996. Located at Robert's Bank, this is a $235 million project, of which Vancouver Port Corporation's share is $180 million. This facility, known as Deltaport, was officially opened in June 1997 and doubles Vancouver's container capacity.

The corporation completed an agreement with the City of Vancouver and private industry for lands to construct a new overpass connecting a major highway directly to a dedicated port roadway. This initiative will keep port traffic off residential streets.

To promote development and increase income from existing assets, the corporation negotiated a 10-year lease with a subsidiary of B.C. Ferries for a North Vancouver waterfront site to allow construction of an assembly building for the manufacture of new, high-speed catamaran ferries.

Performance

The Port of Vancouver handled a record 72 million tonnes in 1996, surpassing the previous record of 71.5 million tonnes, which was set in 1995. Overall, container traffic improved by 24 percent as a result of greater traffic from established customers together with the introduction of Hanjin, Sealand/Maersk and Hyundai/K-Line, which started calling at the port. Bulk cargo, primarily coal, grain, sulphur, potash and chemicals, represented 85 percent of the port's tonnage – up 2 percent from the previous year. Meanwhile, general cargo, representing 8 percent of total tonnage, declined by 24 percent owing to the transfer to a neighbouring port of some two million tonnes of domestic cargo moving by barge to Vancouver Island.

The Vancouver-Alaska cruise market grew for the 14th consecutive year. Revenue passengers totalled 701,500, an increase of 18 percent from 596,000 passengers in 1995.

In 1996, the corporation reported operating revenues of $64.8 million, income from operations of $20.5 million and a net loss of $508,000. The net loss was primarily due to a $26.1 million write-down of property and equipment that resulted from a comprehensive revaluation of certain assets of Canada Place Corporation. The write-

down was partially offset by a $7.5 million adjustment in the corporation's favour to payments in lieu of municipal taxes.

Corporate Objectives for the Next Planning Period

The Vancouver Port Corporation's major objectives are to:

- Proactively grow the volume of cargo and passengers through the Port of Vancouver;
- Earn the level of return required to provide or contribute to facilities, services and technologies for the corporation's customers;
- Attract and keep business in the port through earned trust and respect;
- Maintain and grow port business by respecting and co-existing with its environment (natural and community);
- Provide outstanding service to port customers.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31					
Financial Position					
Total assets	533.7	447.6	382.9	366.9	328.4
Loans from private sector	135.9	44.2	0.0	0.0	0.0
Loans from Canada	1.7	2.1	2.4	2.7	3.0
Shareholder's equity	361.0	364.8	357.1	344.2	307.8
Operations					
Revenues	69.0	66.6	66.3	60.2	64.5
Net income	(0.5)	12.1	15.8	11.1	23.3
Funding from Canada					
Budgetary	0.0	0.0	0.0	0.0	0.0
Change in budgetary funding	-	-	-	-	-
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.4	0.3	0.3	0.3	0.3
Dividends	3.3	4.4	3.0	6.6	7.7
EMPLOYMENT	180	181	145	145	220

VIA Rail Canada Inc.

Chairperson	Marc LeFrançois
President and Chief Executive Officer	Terry W. Ivany
Head Office	6th Floor 2 Place Ville Marie P.O. Box 8116, Station Centre-Ville Montreal, Quebec, H3B 2C9 Telephone: (514) 871-6000 Facsimile: (514) 871-6619 Web Site: http://www.viarail.ca
Incorporation and Status	1977 under the *Canada Business Corporations Act*; Schedule III, Part I of the *Financial Administration Act*; not an agent of Her Majesty.
Appropriate Minister	The Honourable David Collenette, P.C., M.P. Minister of Transport
Auditor	Raymond, Chabot, Martin, Paré and the Auditor General of Canada

Mandate and Background

VIA Rail Canada Inc. was incorporated in 1977 under the *Canada Business Corporations Act* to manage and provide a safe and efficient passenger rail service.

Products and Services

VIA Rail operates 421 trains weekly on 14,000 kilometres of track. The company serves more than 400 communities.

Corporate Highlights

In 1996, VIA implemented a new strategic plan called *Service for Success* by identifying the key elements that make it more competitive and viable as a business.

As part of a six-month test of medium- to long-distance commuter markets, VIA added frequencies and more trains in key southwestern and eastern Ontario markets. In the fall of 1996, VIA became the first passenger railway in the world to provide interactive, self-booking through the Internet.

Performance

Over the past three years, VIA has made significant progress in its attempt to transform its operations from a product-centred, operationally focused corporation into a customer-centred, cost-conscious passenger service. A number of initiatives in 1996 contributed to this progress. By the end of 1996, VIA's workforce numbered 3,000, which represents a reduction of 33 percent since 1992. This is the first full year working under new collective agreements struck in 1995, allowing VIA to modernize its labour practices. The completion of a three-year streamlining effort has yielded annual savings of $46 million.

To improve customer service, VIA replaced complimentary light meals and beverages in Corridor coach service with a new cash food service that give passengers more choice. This change generated $1.8 million in food sales while reducing costs. VIA also began accepting coach reservations and has started a comprehensive redesign of Economy Class. On-the-job safety performance improved: lost-time injuries and days lost fell by more than 30 percent.

The significant increase in VIA's net loss from $26.1 million in 1996 to $70.1 million in 1997 was due mainly to the $33.8 million write-down of its properties and $10 million in reorganization charges to be funded in subsequent years.

The summary information table includes data on VIA's performance indicators.

Corporate Objectives for the Next Planning Period

One of VIA Rail's objectives is to increase its ridership by an average of 2 percent above market growth. It will also strive to provide customer service that is better than that of any other transportation mode in Canada.

The company will move towards self-sufficiency by increasing revenues and reducing costs.

Through enhanced training and effective communication, VIA intends to make its staff more successful. It will also continue to promote safety for staff and customers.

SUMMARY INFORMATION

	1996	1995	1994	1993	1992
FINANCIAL SUMMARY ($ million); financial year ending December 31.					
Financial Position					
Total assets	712.5	783.4	790.4	812.5	866.4
Loans from private sector	0.0	0.0	0.0	0.0	0.0
Loans from Canada	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	591.0	640.5	626.9	640.9	676.6
Operations					
Revenues	184.5	175.0	176.4	164.2	155.8
Net income	(70.1)	(26.1)	(39.3)	(47.5)	(33.0)
Funding from Canada					
Budgetary	245.2	295.4	318.2	348.1	388.9
Change in budgetary funding	-17%	-7%	-9%	-10%	-1%
Non budgetary (loans and investments)	0.0	0.0	0.0	0.0	0.0
Payments to Canada					
Loan repayments	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
EMPLOYMENT	3,000	3,178	3,718	4,131	4,478
PERFORMANCE INDICATORS					
Passengers (000)	3,666.0	3,597.0	3,586.0	3,570.0	3,601.0
Passenger miles	892,412.0	859,088.0	834,142.0	819,607.0	817,271.0
Government operating funding per passenger mile (cents)	25.2	29.8	35.1	41.0	42.1
Average passenger load factor (%)	59.0	61.0	60.0	59.0	57.0
On-time performance (%)	84.0	86.0	87.0	90.0	90.0
Revenue/cash operating expense ratio (%)	47.3	44.0	40.2	33.8	32.0

CORPORATE HOLDINGS

This section presents information on Crown corporations and their corporate holdings as of August 31, 1997. The information is provided in three parts:

Statistical Summary

This table shows the number of parent Crown corporations, subsidiaries and associates on a comparative basis with those of the previous year.

Changes During the Year

This list shows the changes that have occurred in each parent Crown corporation's subsidiaries and associates since the President of the Treasury Board's *1996 Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada.*

Crown Corporations' Corporate Holdings

This section contains a comprehensive list of parent Crown corporations and their subsidiaries and associates.

STATISTICAL SUMMARY

Number of Parent Crown Corporations, Their Wholly Owned Subsidiaries, and Other Subsidiaries and Associates

(at their financial year-ends on or before August 31)

	1997	1996
Parent Crown corporations	**47**	46
Wholly owned subsidiaries	**25**	29
Other subsidiaries and associates	**23**	22

CHANGES DURING THE YEAR

Canada Lands Company Limited	
Canada Museums Construction Corporation Inc.	Deleted
Canada Post Corporation	
2717786 Canada Inc.	Added
964102 Ontario Inc.	Added
CINA Holdings B.V.	Deleted
G.D. Express Worldwide N.V.	Deleted
G.D. Net B.V.	Deleted
Purolator Customs Services Ltd.	Added
Supercourier (1987) Ltd.	Added
Canadian Broadcasting Corporation	
Showcase	Deleted
Canadian Race Relations Foundation	Added
Enterprise Cape Breton Corporation	
Bell Bray Golf Developments Incorporated	Added
Marine Atlantic Inc.	
Coastal Transport Ltd.	Deleted
Newfoundland Dockyard Corporation	Deleted
VIA Rail Canada Inc.	
Railroad Association Insurance Ltd.	Deleted

CROWN CORPORATIONS' CORPORATE HOLDINGS

1. Atlantic Pilotage Authority

2. Atomic Energy of Canada Limited

Subsidiaries held at 100%

- AECL Technologies B.V.
- AECL Technologies Inc.

3. Bank of Canada

4. Business Development Bank of Canada

Associate held at less than 50%

- Cominco Ltd.[1]

5. Canada Council

6. Canada Deposit Insurance Corporation

7. Canada Development Investment Corporation

Subsidiaries held at 100%

- Canada Eldor Inc.
- Canada Hibernia Holding Corporation and its associate
  - Hibernia Management and Development Company Ltd. (8.5%)
- Theratronics International Limited and its subsidiary
  - Meicor Inc. (65%)

Associate held at less than 50%

- Varity Corporation[1]

8. Canada Lands Company Limited

Subsidiaries held at 100%

- 3148131 Canada Limited
- Canada Lands Company CLC Limited
- Canada Lands Company (Vieux-Port de Québec) Inc.[2]
- CN Tower Limited
- Old Port of Montreal Corporation Inc.[3]

9. Canada Mortgage and Housing Corporation

10. Canada Ports Corporation

Subsidiary held at 100%

- Ridley Terminals Inc.

11. Canada Post Corporation

Subsidiaries held at 100%

- 2875039 Canada Limited
- 2875047 Canada Limited
- 3106900 Canada Inc.
- Canada Post Systems Management Ltd.
- Canada Post Holdings and its subsidiary
  - PCL Courier Holdings Inc. (75%) and its subsidiaries
    - 964102 Ontario Inc. (100%)
    - Purolator Courier Ltd. (100%) and its subsidiaries
      - 2717786 Canada Inc. (100%)
      - Canadian Teleservices Corporation (100%)
      - Distribution Management Services Inc. (100%)
      - Purolator Customs Services Ltd. (100%)
      - Supercourier (1987) Ltd. (100%)

Associates held at less than 50%

- Cooperative Vereniging International Post Corporation U.A. (6.2%) and its subsidiaries
  - IPC Technology S.C. (96%)
  - IPC Unipost S.C. (96%)

12. Canadian Broadcasting Corporation

Associates held at less than 50%

- Cable North Microwave Limited (1 share)
- Master FM Limited (20%)
- Visnews Limited (1 share)

13. Canadian Commercial Corporation

14. Canadian Dairy Commission

15. Canadian Film Development Corporation

16. Canadian Museum of Civilization

17. Canadian Museum of Nature

18. Canadian Race Relations Foundation

19. Canadian Wheat Board, The

20. Cape Breton Development Corporation

Subsidiary held at 100%

- Cape Breton Carbofuels Limited[4]

21. Defence Construction (1951) Limited

22. Enterprise Cape Breton Corporation

Subsidiaries held at 100%

- Cape Breton Marine Farming Limited[4]
- DARR (Cape Breton) Limited[4]
- Gulf Bras D'Or Estates Limited[4]

Associates held at less than 50%

- Bell Bray Golf Developments Incorporated
- Canadian Tennis Technology Limited
- General Mining Building Limited
- Lynwood Inn Limited
- Silver Screen Star Limited

23. Export Development Corporation

Subsidiary held at 100%

- Exinvest Inc.

24. Farm Credit Corporation

25. Freshwater Fish Marketing Corporation

26. Great Lakes Pilotage Authority, Ltd.

27. Halifax Port Corporation

28. International Development Research Centre

29. Laurentian Pilotage Authority

30. Marine Atlantic Inc.

31. Montreal Port Corporation

Subsidiary held at 100%

- 176422 Canada Inc.

32. National Arts Centre Corporation

33. National Capital Commission

34. National Gallery of Canada

35. National Museum of Science and Technology

36. Pacific Pilotage Authority

37. Petro-Canada Limited

38. Port of Quebec Corporation

39. Prince Rupert Port Corporation

40. Queens Quay West Land Corporation

41. Royal Canadian Mint

42. Saint John Port Corporation

43. St. John's Port Corporation

44. St. Lawrence Seaway Authority, The

Subsidiaries held at 100%

- Great Lakes Pilotage Authority, Ltd.[5]
- The Jacques Cartier and Champlain Bridges Incorporated
- The Seaway International Bridge Corporation, Ltd.

45. Standards Council of Canada

46. Vancouver Port Corporation

Subsidiary held at 100%

- Canada Place Corporation

47. VIA Rail Canada Inc.

Notes

1. Only non-voting preferred shares are held.
2. Canada Lands Company (Vieux-Port de Québec) Inc. ceased operations on March 31, 1988. A decision has yet to be taken with respect to its formal dissolution pending the resolution of certain legal matters.
3. Old Port of Montreal Corporation Inc., a wholly owned subsidiary of the Canada Lands Company Limited, has been directed by Order in Council (P.C. 1987-86) to report as if it were a parent Crown corporation.
4. Inactive corporation.
5. Not included in the statistical summary of wholly owned subsidiaries. Pursuant to the *Pilotage Act*, the *Financial Administration Act* (FAA) applies to the Great Lakes Pilotage Authority as if it were a parent Crown corporation within the meaning of the FAA.

Other Corporate Interests

The Other Corporate Interests section provides information on:

- corporations with share capital owned by Canada through share ownership or board membership with other organizations or other governments;
- corporations without share capital (for example, non-profit corporations) for which the government has a legal right to appoint or approve the appointment of some members to the board of directors; and
- organizations formed pursuant to an international agreement where the government has a right to appoint or approve the appointment of some members to the governing body, or in which Canada holds shares.

This information is grouped in listings as follows:

Mixed Enterprises

Corporate entities whose shares are partially owned by Canada, through a minister. The balance of shares is owned by private sector parties.

Joint Enterprises

Corporate entities whose shares are partially owned by Canada, through a minister. The balance of shares is owned by another level of government.

International Organizations

International organizations are corporate entities created pursuant to international agreements by which Canada has a right to appoint or elect members to a governing body.

Other Entities

This category includes corporate entities in which Canada holds no shares but, either directly or through a Crown corporation, has a right pursuant to statute, articles of incorporation, letters patent or by-law, to appoint or nominate one or more members to the board of directors or similar governing body.

Corporations under the terms of the *Bankruptcy and Insolvency Act*

This group includes corporate entities whose shares are partially owned by Canada following receipt by a trustee in bankruptcy.

Statistical Summary

The statistical summary table shows the numbers of mixed enterprises, joint enterprises, international organizations, other entities, and corporations for whom shares have been acquired under the *Bankruptcy and Insolvency Act* as of March 31, 1997 in comparison with March 31, 1996.

Changes During the Year

This section provides the names of the other corporate interests of Canada, as of March 31, 1997, deleted or added to the listings since March 31, 1996.

STATISTICAL SUMMARY

(as at March 31)

Other Corporate Interests of Canada	1997	1996
Mixed Enterprises	**3**	4
Joint Enterprises	**3**	3
International Organizations	**20**	19
Other Entities	**86**	66
Corporations under the terms of the *Bankruptcy and Insolvency Act*	**6**	6

CHANGES DURING THE YEAR

Mixed Enterprises	
Canarctic Shipping Company Limited	Deleted
Joint Enterprises	No Additions or Deletions
International Organizations	
North American Commission for Environmental Co-operation – Joint Public Advisory Committee	Added
Other Entities	
Agriculture Adaptation Council	Deleted
Agriculture Institute of Management in Saskatchewan Inc.	Added
Association québécoise des bio-industries	Added
Association québécoise des fabricants de l'industrie médicale	Added
B.C. Investment Agriculture Foundation	Added
Canada Grains Council	Deleted
Canada-Newfoundland Offshore Petroleum Board	Added
Canada-Nova Scotia Offshore Petroleum Board	Added

Canada Television and Cable Production Fund	Added
Canadian Centre for Swine Improvement	Added
Canadian Dairy Network	Added
Canadian Farm Business Management Council	Added
Canadian Institute for Energy Training	Deleted
Centre de développement du porc du Québec Inc.	Added
Centre d'entreprises et d'innovation de Montréal	Added
Club Export agro-alimentaire du Québec	Added
Conseil de promotion du logiciel québécois	Added
Conseil pour le développement de l'agriculture du Québec	Deleted
Conseil de recherches en pêche et agroalimentaire du Québec	Added
Fondation du maire de Montréal pour la Jeunesse	Added
Fonds de développement-emploi Montréal	Added
Fonds québécois d'adaptation des entreprises agroalimentaires	Deleted
GEAGRI	Added
Inno-Centre	Added
Institut de design Montréal	Added
Institut EDI du Québec	Added
Le Consortium de télévision Québec Canada Inc. (TV5)	Added
Learning for a Sustainable Future	Deleted
Manitoba Crop Diversification Centre	Added
Montréal International	Added
Ontario Agriculture Training Institute	Added
Plastiservices Inc.	Added

Corporations held under the terms of the *Bankruptcy and Insolvency Act*

Gemini Technology Inc.	Deleted
Autoskill International Inc.	Added

MIXED ENTERPRISES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Fiscal Year End/ Total Assets (A)/ Liabilities (L)/ Auditor	Federal Ownership
Minister of Finance				
National Sea Products Limited				
To process and market fish, seafoods and fish by-products around the world.	P.O. Box 910 Lunenburg, N.S. B0J 2C0 (902) 422-9381	*The Companies Act of Nova Scotia*, amalgamated in 1967	December 30 A = $144.0M L = $113.6M Ernst & Young	10.65%
Petro-Canada				
To enhance shareholder's value through development, production and distribution of hydrocarbons and other types of fuel and energy.	52nd Floor West Tower 150-6th Ave. S.W. Calgary, Alberta T2P 3E3 (403) 296-8000	*Canada Business Corporations Act*, 1975	December 31 A = $7.77B L = $2.96B Arthur Andersen & Company	18%
Minister of Natural Resources				
NPM Nuclear Project Managers Canada Inc.				
Nuclear project and construction management. To transfer this activity to the private sector.	22nd Floor 2020 University Street Montreal, Quebec H3A 2A5 (514) 288-1990	*Canada Business Corporations Act*, 1982	March 31 A = $28.6M L = $24.6M Price Waterhouse	17%

JOINT ENTERPRISES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Fiscal Year End/ Total Assets (A)/ Liabilities (L)/ Auditor	Federal Ownership
Minister of Industry and Minister responsible for the Federal Office of Regional Development (Quebec)				
Société du parc industriel et portuaire Québec-Sud				
To promote the development of an industrial and port park in the city of Lauzon in order to provide a venue for major industrial projects. To administer this industrial and port park.	229-A St. Omer Suite 101 Lévis, Quebec G6N 6N4 (418) 833-5925	Special act of the Quebec Government (1974)	March 31 A = $2.5M L = $0M Auditor General of Quebec	40%
Minister of Industry and of Western Economic Diversification				
North Portage Development Corporation & The Forks Renewal Corporation				
To foster the social and economic redevelopment of the North Portage area in Winnipeg.	201- One Forks Market Road Winnipeg, Man. R3C 4L9 (204) 943-7752	*Manitoba Corporations Act*, 1983	March 31 A = $131.7M L = $33.7M Deloitte & Touche	33.3%
Minister of Natural Resources				
Lower Churchill Development Corporation Limited				
To establish a basis for the development of all or part of the hydroelectric potential of the Lower Churchill basin and the line transmission of this energy to markets.	P.O. Box 12700 St. John's, Nfld. A1B 3T5 (709) 737-1400	*Newfoundland Companies Act*, 1978	December 31 A = $30M L = $0M Ernst & Young	49%

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Fiscal Year End/ Total Assets (A)/ Liabilities (L)/ Auditor	Federal Ownership
Minister of the Environment				
International Lake Memphremagog Levels Board				
The Board provides a forum for dispute resolution regarding the regulation of the levels of Lake Memphremagog in accordance with international obligations and federal and provincial legislation.	c/o EC, Quebec Region Suite 300 100 Alexis-Nihon Blvd. Saint Laurent, Quebec H4M 2N8 (514) 283-1628	The Board was created pursuant to an agreement between the governments of Canada and the U.S.A.	n/app	n/app
International Lake of the Woods Control Board				
Lake of the Woods is an international boundary water. The Lake of the Woods Control Board is responsible for the regulation of levels in the Lake of the Woods and Lac Seul and flows in the Winnipeg and English Rivers downstream of these lakes to their junction, in accordance with international obligations and federal and provincial legislation.	c/o EC, Environmental Protection Service 4th floor 351 St. Joseph Blvd. Hull, Quebec K1A 0H3 (819) 997-2529	The Board was created pursuant to Section 2 of the *Lake of the Woods Control Board Act* and is further mandated by the Canada-U.S. Boundary Waters Treaty (Convention and Protocol, 1925).	n/app	n/app

n/app = not applicable

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Fiscal Year End/ Total Assets (A)/ Liabilities (L)/ Auditor	Federal Ownership
Minister of the Environment (continued)				
International Niagara Committee				
The Committee determines the amount of water available for the purposes of the Treaty and records the amounts of water used for power diversions.	c/o EC, Ontario Region P.O. Box 5050 867 Lakeshore Road Burlington, Ontario L7R 4A6 (905) 336-4713	The Niagara Diversion Treaty, 1950 as administered by the Department of Foreign Affairs and International Trade and the U.S. State Department	n/app	n/app
International Porcupine Caribou Board				
The Board makes recommendations and provides advice on those aspects of the conservation of the Porcupine Caribou Herd and its habitat that require international co-ordination.	c/o EC Pacific and Yukon Region P.O. Box 340 Delta, B.C. V4K 3Y3 (604) 946-8546	Agreement signed by the U.S.A. and Canada on the Conservation of the Porcupine Caribou Herd, 1987	n/app	n/app
North American Commission for Environmental Cooperation – Joint Public Advisory Committee				
The committee provides advice to the Council of the North American Commission for Environmental Cooperation on matters within the scope of the North American Agreement on Environmental Cooperation, a "side agreement" to the North American Free Trade Agreement.	Room 200 393 West St-Jacques St. Montreal, Quebec H2Y 1N9 (514) 350-4300	The Committee was created pursuant to the North American Agreement on Environmental Cooperation.	n/app	n/app

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Fiscal Year End/ Total Assets (A)/ Liabilities (L)/ Auditor	Federal Ownership
Minister of Finance				
European Bank for Reconstruction and Development				
To develop a vibrant private sector and to help foster the transition from centrally planned economies to market economies in the new Europe.	One Exchange Square London, England EC2 2EH 44-171-338-6000	*European Bank for Reconstruction and Development Agreement Act*, 1991	Arthur Andersen	3.4%
International Bank for Reconstruction and Development				
To assist in the reconstruction and development of territories of member countries.	1818 H Street N.W. Washington, D.C. 20433, U.S.A. (202) 623-1000	*Bretton Woods and Related Agreements Act*, 1945	Price Waterhouse	2.99%
International Development Association				
To promote economic development, increase productivity and thus raise standards of living in the less developed areas of the world.	1818 H Street N.W. Washington, D.C. 20433, U.S.A. (202) 477-1234	Articles of Agreement, 1960, *International Development Association Act*, 1960	Price Waterhouse	3.03%
International Finance Corporation				
To further economic development by encouraging the growth of productive enterprises in member countries, supplementing the activities of the International Bank for Reconstruction and Development.	1850 I Street N.W. Washington, D.C. 20433, U.S.A. (202) 473-1234	Articles of Agreement; Vote 731, *Appropriation Act No. 6*, 1956	Price Waterhouse	3.58%

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Fiscal Year End/ Total Assets (A)/ Liabilities (L)/ Auditor	Federal Ownership
Minister of Finance (continued)				
International Monetary Fund				
Established to promote economic welfare by encouraging the expansion of trade, the maintenance of orderly exchange arrangements, and the reduction of balance of payments.	700 19th St. N.W. Washington, D.C. 20431, U.S.A. (202) 623-7430	Agreement signed by member countries, 1945	External Audit Committee	2.97%
Multilateral Investment Guarantee Agency				
To encourage the flow of investments for productive purposes among member countries, thus supplementing the activities of the International Bank for Reconstruction and Development, the International Finance Corporation and other international development finance institutions.	1818 H Street N.W. Washington, D.C. 20433, U.S.A. (202) 477-6167	*Bretton Woods and Related Agreements Act, 1988*	Price Waterhouse	2.97%
Minister of Fisheries and Oceans				
Great Lakes Fishery Commission				
Study of the Great Lakes fisheries: installation of devices and application of lampricides in the Convention area and related tributaries for lamprey control; and provision of a forum for the development of fisheries management programs.	Suite 209 2100 Commonwealth Boulevard Ann Arbor, Michigan 48105-1563 U.S.A.	*Great Lakes Fisheries Convention Act*, 1955, R.S.C. 1970, c. F-15.	Deloitte & Touche	n/app

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Fiscal Year End/ Total Assets (A)/ Liabilities (L)/ Auditor	Federal Ownership
Minister of Fisheries and Oceans (continued)				
International Pacific Halibut Commission				
Conservation, restoration, rational management and sharing of halibut resources in the Pacific Ocean.	P.O. Box 95009 Seattle, WA 98145-2009 U.S.A.	*North Pacific Halibut Fishery Convention Act*, R.S.C., c. 43	Coopers & Lybrand	n/app
Pacific Salmon Commission				
Conservation, restoration, rational management and sharing of Northeast Pacific salmon stocks. Establishment of salmon management and enhancement programs to reduce interceptions, to prevent overfishing and to secure, for each country, benefits equivalent to the production of salmon from its own waters.	600-1155 Robson St. Vancouver, B.C. V6E 1B5	Treaty between the Government of Canada and the Government of the United States of America concerning Pacific Salmon (signed January 28, 1985; ratified March 18, 1985)	Peat Marwick Thorne	n/app
Minister of Foreign Affairs				
African Development Bank				
To contribute to the economic development and social advancement of the member countries, individually and collectively. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives in Africa.	01, Box 1387 Abidjan 01 Ivory Coast Africa 011-225-20-44-44	Agreement signed by member countries, 1963 and the *International Development (Financial Institutions) Continuing Assistance Act*	Deloitte & Touche; and Akintola Williams and Hussan Inc.	3.16%

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Fiscal Year End/ Total Assets (A)/ Liabilities (L)/ Auditor	Federal Ownership
Minister of Foreign Affairs (continued)				
Asian Development Bank				
To promote the economic and social advancement of developing country members. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives in Asia.	P.O. Box 789 1099 Manila Philippines 011-632-711-3851	Agreement signed by member countries, 1965 and the *International Development (Financial Institutions) Continuing Assistance Act*	Deloitte & Touche	5.38%
Caribbean Development Bank				
To contribute to the harmonious economic growth and development of the member countries, and integration among them, having special and urgent regard to the needs of the less developed members of the region. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	P.O. Box 408 Wilday, St. Michael Bridgetown Barbados 1-8-246-429-3550	Agreement signed by member countries, 1969 and the *International Development (Financial Institutions) Continuing Assistance Act*	Price Waterhouse	8.97%
Inter-American Development Bank				
To contribute to the acceleration of the process of economic/social development of the regional developing member countries, individually or collectively. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	1300 New York Avenue N.W. Washington, D.C. 20577, U.S.A. (202) 623-1000	Agreement signed by member countries, 1959 and the *International Development (Financial Institutions) Continuing Assistance Act*	Price Waterhouse	4.15%

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Fiscal Year End/ Total Assets (A)/ Liabilities (L)/ Auditor	Federal Ownership
Minister of Foreign Affairs (continued)				
International Boundary Commission				
To maintain the demarcation and cartographic representation of the land and water boundary between Canada and the United States, and to regulate all construction within three metres of the boundary line.	Room 571 615 Booth Street Ottawa, Ontario K1A 0E9 (613) 995-4341	*Treaty of Washington, 1908; International Boundary Commission Act*, 1960	n/app	n/app
Minister of Veterans Affairs				
Commonwealth War Graves Commission				
To mark and maintain graves and memorials and keep records of the members of the Forces of the Commonwealth who died in the two World Wars.	2 Marlow Road Maidenhead Berkshire, U.K. SL6 7DX (0628) 34221	Royal Charter, 1917	Coopers Lybrand & Deloitte	n/app

OTHER ENTITIES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Agriculture and Agri-Food			
Agriculture Institute of Management in Saskatchewan, Inc.			
The main objective is to have the Institute co-operate with the federal and provincial governments in the implementation of the Canadian Farm Business Management Program in Saskatchewan.	Room 125 3085 Albert Street Regina, Saskatchewan S4S 0B1 (306) 787-5964	Section 4(a) of the *Department of Agriculture and Agri-Food Act*	Mintz & Wallace
Agri-Food Innovation Fund			
The purpose of the Fund as provided in the Act is to enhance the diversification of the Saskatchewan agriculture and food industry, to support research and development in the Saskatchewan agriculture and food industry and to encourage Saskatchewan farmers and rural residents to create economic opportunities and jobs.	329-3085 Albert Street Regina, Saskatchewan S4S 0B1 (306) 780-8262	*The Crown Corporations Act*, 1993 (Sask.)	Saskatchewan Provincial Auditor
B.C. Investment Agriculture Foundation (BCIAF)			
To manage the decision making and delivery of British Columbia's allocation of adaptation and safety net funding; to set priorities and fund projects that foster long-term growth, employment and competitiveness of B.C.'s agriculture and food industry, associated industries and rural areas.	P.O. Box 8248 Victoria, B.C. V8W 3R9	Agriculture and Agri-Food BCIAF By-laws	Newly incorporated – auditors to be appointed.

OTHER ENTITIES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Agriculture and Agri-Food (continued)			
Canadian Centre for Swine Improvement (CCSI)			
Assumed the responsibilities for swine genetic improvement and evaluation transferred from AAFC in March 1996.	Central Experimental Farm Bldg. #54, Maple Drive Ottawa, Ontario K1A 0C6 (613) 233-8872	AAFC-CCSI privatization agreement OIC No. PC 1995-2/635; OIC No. PC 1995-2/1848; *Department of Agriculture and Agri-Food Act*, 1994; *Federal Real Property Act*, 1991	Bath Haché
Canadian Dairy Network (CDN)			
Assumed the responsibilities for dairy genetic improvement and evaluation transferred from AAFC.	Suite 307 150 Research Lane Guelph, Ontario N1G 4T2 (519) 767-9660	AAFC-CDN privatization agreement OIC No. PC 1995 - 2/1846; *Department of Agriculture and Agri-Food Act*, 1994	G.E. Arien
Canadian Farm Business Management Council (CFBMC)			
The main objective is to have the CFBMC monitor and provide guidance on the implementation of the Canadian Farm Business Management Program; promote and encourage the application of sound farm business management principles and practices; and encourage, co-ordinate and fund projects undertaken on a national, regional, multi-provincial or provincial basis.	Suite 1110 75 Albert Street Ottawa, Ontario K1P 5E7 (613) 237-9060	Section 4(a) of the *Department of Agriculture and Agri-Food Act*	Deloitte & Touche

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Agriculture and Agri-Food (continued)			
Canadian International Grains Institute			
To promote, on a non-profit basis, for the general advantage of Canada, the development, maintenance and enlargement of Canadian and international markets for Canadian grains and oilseeds and the products thereof.	Suite 1000 303 Main St. Winnipeg, Man. R3C 3G7 (204) 983-3289	*Canada Corporations Act*, 1972	Deloitte & Touche
Canadian Livestock Records Corporation			
To perform services for and on behalf of members of the fifty Breed Associations. To ensure the maintenance of the Breed Associations' Herd Books and to maintain the General Stud and Herd Book.	2417 Holly Lane Ottawa, Ontario K1V 0M7 (613) 731-7110	*Animal Pedigree Act*, 1988	Ernst & Young
Centre de développement du porc du Québec Inc.			
To promote the development and use of new technologies that could improve quality, efficiency and profitability of the Quebec hog industry, with respect to environment.	Bureau 340 2795, boul. Laurier Sainte-Foy, Québec G1V 4M7 (418) 650-2440	3^{e} partie de la *Loi sur les compagnies du Québec*	Samson Bélair
Club Export Agro-alimentaire du Québec			
To assist its members (agri-food industries) to promote their products on international market by providing information, developing an international network and increasing sales.	Suite 102 Édifice de Bleury 200, rue MacDonald St-Jean-sur-Richelieu Québec J3B BJ6 (514) 349-1521	3^{e} partie de la *Loi sur les compagnies du Québec*	Variable

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Agriculture and Agri-Food (continued)			
Conseil de recherches en pêche et agroalimentaire du Québec			
To advise the Minister of Agriculture, Fisheries and Food Quebec on research and development activities to encourage dialogue in order to help the bio-food sector further the goal of sustainable development.	Direction de la recherche MAPAQ 200 St. Foy 9th Floor Quebec, Quebec G1R 4X6 (418) 646-5774	Gouvernement du Québec; *Loi sur le vérificateur général*	Vérificateur général
GEAGRI			
To contribute to the development of agriculture management and economy through the gathering of partners for the realization of activities, tools and services suited for customers' needs.	200 St. Foy 9th Floor Quebec, Quebec G1R 4X6 (418) 646-5772	Gouvernement du Québec : l'inspecteur général des institutions financières (incorporation)	Groupe Mallette Maheu
Manitoba Crop Diversification Centre (MCDC)			
An industry-led initiative with a mandate to identify, evaluate, demonstrate and facilitate the use of new crops, technologies and value added opportunities in a sustainable agricultural system. MCDC has three owned sites, and two partnership sites representing a range of soil and climates. Much of the Centre's work is carried out in co-operation with outside agencies, groups and individuals. The centre provides a variety of assistance for research and demonstration activities, including technical support and use of its facilities and land.	Box 309 Carberry, Manitoba R0K 0H0 (204) 834-6000	TB 795946 and 795046 which gave effective project approval to sign an agreement between the Govt. of Canada, the Govt. of the Province of Manitoba and the Manitoba Horticultural Productivity Enhancement Centre	Myers, Norris & Penny Auditor General

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Agriculture and Agri-Food (continued)			
Ontario Agriculture Training Institute (OATI)			
The main objective is to have OATI co-operate with the federal and provincial governments in the implementation of the Canadian Farm Business Management Program in Ontario.	Suite 405 491 Eglinton Avenue West Toronto, Ontario M5N 1A8 (416) 485-3677	Section 4(a) of the *Department of Agriculture and Agri-Food Act*	Deloitte & Touche
POS Pilot Plant Corporation			
To be a practical world-class research and development facility for Canadian and international industry so that secondary and tertiary industry can be started and developed in Canada.	118 Veterinary Rd. Saskatoon, Sask. S7N 2R4 (306) 975-7066	*Canada Corporations Act,* 1973	KPMG Peat Marwick Thorne
Western Grains Research Foundation			
To initiate, encourage, support and conduct research into grain production and into economic and market development of grain products.	118 Veterinary Rd. Saskatoon, Sask. S7N 2R4 (306) 975-0060	*Canada Corporations Act,* 1981	Coopers & Lybrand
Minister of Canadian Heritage			
1997 Brandon Canada Games Society Inc.			
To plan, organize and stage the 1997 Canada Summer Games.	108 - 18th Street Brandon, Manitoba R7A 5A4 (204) 729-1997	*The Corporations Act* (Manitoba) 1993	Ernst & Young
1999 Corner Brook Canada Winter Games Host Society			
To plan, organize and stage the 1999 Canada Winter Games.	P.O. Box 1999 Corner Brook, Nfld. A2H 6T2 Tel: (709) 637-1999 Fax: (709) 785-1999	*The Corporations Act* (Newfoundland) 1995	To be appointed

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Canadian Heritage (continued)			
Association for the Export of Canadian Books			
To promote the export of Canadian books. To administer the export budget for the Department of Canadian Heritage's Book Publishing Industry Development Program.	Suite 1101 1 Nicholas St. Ottawa, Ontario K1N 7B7 (613) 562-2324	*Canada Corporations Act*, 1972	Robert B. Shortley
Calgary Olympic Development Association			
To foster the development of Canadian athletics; to administer the Olympic Endowment Funds; and to operate and maintain the Canada Olympic Park.	88 Canada Olympic Road S.W. Calgary, Alta. T2M 4N3 (403) 247-5416	*Society Act of Alberta*, 1979	Price Waterhouse
Canada Games Council			
To provide a major national multi-sport event for the best young athletes in all provinces and territories.	1600 James Naismith Drive Gloucester, Ontario K1B 5N4 (613) 748-5799	*Canada Corporations Act*, 1991	Deloitte & Touche
Canada Television and Cable Production Fund			
To increase the broadcast presence of high quality Canadian programs and to enhance the Canadian broadcasting and production sector.	Suite 802 45 Charles St. E. Toronto, Ontario M4Y 1S2	*Canada Corporations Act*, Part II, 1996	KPMG
Canadian Sport and Fitness Administration Centre			
To provide support services in the areas of administration and promotion.	1600 James Naismith Drive Gloucester, Ontario K1B 5N4 (613) 748-5708	*Canada Corporations Act*, 1974	KPMG Peat Marwick Thorne, and Mitchell & Co.

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Canadian Heritage (continued)			
Coaching Association of Canada			
To improve the formal training of coaches through the National Coaching Certification Program and related programs, and to consolidate a profession of coaching which will ensure job opportunities are matched by qualified candidates.	1600 James Naismith Drive Gloucester, Ontario K1B 5N4 (613) 748-5624	*Canada Corporations Act,* 1971	Ouseley Hanvey Clipsham Deep
Commonwealth Centre for Sport Development			
To establish and operate a multi-sport development centre, dedicated to developing standards of high performance and competitive excellence in athletes and coaches, within domestic and international amateur sports.	4636 Elk Drive Victoria, B.C. V8Z 5M1 (604) 744-3538	*Society Act of B.C.,* 1988	KPMG Peat Marwick Thorne
Le Consortium de télévision Québec Canada Inc. (TV5)			
Promote the French language throughout the world through a specialty television service.	Bureau 101 1755, Boul. René-Lévesque Est Montreal, Quebec H2K 4P6	*Canada Corporations Act*, Part II, 1991	Samson Bélair Deloitte & Touche
National Sport Centre — Calgary			
To support high-performance athletes to achieve podium performances at international competitions through a holistic development process.	c/o Faculty of Physical Education University of Calgary 2500 University Drive NW Calgary, Alberta T2N 1N4 Tel: (403) 220-8196 Fax: (403) 282-6972	*Society Act of Alberta,* 1994	Price Waterhouse

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Canadian Heritage (continued)			
Pan American Games Society (WPG 1999) Inc.			
To plan, organize and stage the 1999 Pan American Games in Winnipeg.	500 Shaftsbury Blvd. Winnipeg, Manitoba R3P 0M1 (204) 985-1999	*The Corporations Act* (Manitoba) 1994	Price Waterhouse
Sport Information Resource Centre			
To maintain a non-profit national sport information resource centre to serve the educational needs of those involved in the development of sport and fitness in Canada.	1600 James Naismith Drive Gloucester, Ontario K1B 5N4 (613) 748-5658	*Canada Corporations Act*, 1987	Guindon Charron
Minister of the Environment			
Wildlife Habitat Canada			
To promote the conservation, restoration and enhancement of wildlife habitat in Canada in order to retain the diversity, distribution and abundance of wildlife.	Suite 200 7 Hinton Avenue Ottawa, Ontario K1Y 4P1 (613) 722-2090	*Canada Corporations Act*, 1984	KPMG Peat Marwick Thorne
Minister of Fisheries and Oceans			
International Fisheries Commissions Pension Society			
To arrange for and administer the provision of pensions and insurance for Canadian employees of any international fisheries commission, whose seat or headquarters is established and maintained by Canada or the U.S., or both.	c/o Department of Fisheries and Oceans 200 Kent Street Ottawa, Ontario K1A 0E6 (613) 993-1860	*Canada Corporations Act*, 1957	Director General Corporate Review, Evaluation and Audit Directorate, Department of Fisheries and Oceans

OTHER ENTITIES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Foreign Affairs			
Asia-Pacific Foundation of Canada			
To develop closer ties between the peoples and institutions of Canada and the Asia-Pacific region.	Suite 666 999 Canada Place Vancouver, B.C. V6C 3E1 (604) 684-5986	*Asia-Pacific Foundation of Canada Act*, 1984	Arthur Andersen & Company
International Centre for Human Rights and Democratic Development			
To promote and support co-operation between Canada and other countries for the purpose of developing and strengthening human rights institutions.	1st Floor 63, rue de Brésoles Montreal, Quebec H2Y 1V7 (514) 283-6073	*International Centre for Human Rights and Democratic Development Act*, 1988	Auditor General of Canada
Roosevelt Campobello International Park Commission			
To administer as a memorial the Roosevelt Campobello International Park.	P.O. Box 9, Welshpool Campobello Is., N.B. E0G 3H0 (506) 752-2992	*The Roosevelt Campobello International Park Commission Act*, 1964	Foster, Carpenter, Black & Co.
Minister of Health			
Canadian Centre on Substance Abuse			
To promote increased awareness, on the part of Canadians, of matters relating to alcohol and drug abuse and their increased participation in the reduction of harm associated with such abuse, and to promote the use of relevant programs.	Suite 300 75 Albert Street, Ottawa, Ontario K1P 5E7 (613) 235-4048	*Canadian Centre on Substance Abuse Act*, 1988	McIntyre & McLarty
Canadian Fitness and Lifestyle Research Institute			
To conduct research, and collect, interpret and disseminate information pertaining to the fitness levels of Canadians.	Suite 201 185 Somerset St. W. Ottawa, Ontario K2P 0V2 (613) 233-5528	*Canada Corporations Act*, 1980	Ouseley Hanvey Clipsham Deep

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Health (continued)			
PARTICIPaction			
To inform Canadians about the positive benefits of physical fitness and to motivate them to adopt healthy, physically active lifestyles. To promote fitness through participation in sport and physical recreation.	Suite 220 40 Dundas St. W. Toronto, Ontario M5G 2C2 (416) 977-7467	*Canada Corporations Act*, 1971	KPMG Peat Marwick Thorne
Terry Fox Humanitarian Award Inc.			
To encourage Canadian youth to seek high ideals as represented by Terry Fox by granting commemorative scholarships for the pursuit of higher education; to establish, maintain and manage an endowment fund.	c/o Simon Fraser University Burnaby, British Columbia V5A 1S6 (604) 291-3057	*Canada Corporations Act*, 1980	Ouseley Hanvey Clipsham Deep
Minister of Indian Affairs and Northern Development			
Northern Native Fishing Corporation			
To preserve a fleet of fishing vessels and related licences for the long-term benefit of native fishermen, and to foster their development as independent business operators.	P.O. Box 876 4-214 Third Ave. W. Prince Rupert, B.C. V8J 3Y1 (250) 627-8436	*British Columbia Companies Act*, 1982	Carlyle Shepherd & Co.
Minister of Industry			
Canada Foundation for Innovation			
To strengthen Canadian capability for research by committing funds to the development of research infrastructure in Canada.	350 Albert Street P.O. Box 77 Ottawa, Ontario K1R 1A4 (613) 947-6496	*Budget Implementation Act*, 1997	To be appointed

OTHER ENTITIES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Industry and Minister Responsible for the Federal Office of Regional Development (Quebec)			
Association québécoise des bio-industries			
To provide services to businesses in the biotechnology industry (marketing, technology transfer and lobbying).	Suite 100 155 Chomedey Blvd. Chomedey, Quebec H7B 3Z1	*Loi sur les compagnies du Québec,* 1995	Campeau Vachon
Association québécoise des fabricants de l'industrie médicale			
To provide services to businesses in the health care products sector (marketing, technology transfer and lobbying).	8475 Christophe-Colomb P.O. Box 175 Succursale Youville Montreal, Quebec H2P 2V4	*Loi sur les compagnies du Québec,* 1987	Samson Bélair Deloitte & Touche
Centre d'entreprises et d'innovation de Montréal			
To provide services to businesses starting up, particularly in the areas of technology and fashion.	33 Prince Street Montreal, Quebec H3C 2M7	*Loi sur les compagnies du Québec,* 1995	Raymond, Chabot, Martin, Paré
Conseil de promotion du logiciel québécois			
To provide support to businesses for training on electronic data interchange.	Suite 600 407 St. Laurent Blvd. Montreal, Quebec H2Y 2Y5	*Loi sur les compagnies du Québec,* 1990	Raymond, Chabot, Martin, Paré
Fondation du maire de Montréal pour la Jeunesse			
To assist young disadvantaged Montrealers who are contributing to Montreal's economc development by starting their own businesses.	Suite 4.106 275 Notre-Dame E. Montreal, Quebec H2Y 1C6 (514) 872-8401	*Loi sur les compagnies du Québec,* 1995	Auditor of the City of Montreal
Fonds de développement-emploi Montréal			
To promote the economic development of the most disadvantaged areas of Montreal by providing capital funding to small local businesses through a capital investment fund.	Suite 100 5703 Sherbrooke E. Montreal, Quebec H1N 3M1	*Loi sur les compagnies du Québec,* 1988	Mallette Maheu

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Industry and Minister Responsible for the Federal Office of Regional Development (Quebec) (continued)			
Inno-Centre			
To provide support to small and medium sized businesses.	Suite 220 4900 Jean Talon W. Montreal, Quebec H4P 1W9	*Loi sur les compagnies du Québec,* 1985	André Normandin
Institut de design Montréal			
To promote design as an economic value and to increase the exposure of designers on the local and international scenes.	Level 3 390 St. Paul E. Montreal, Quebec H2Y 1H2	*Loi sur les compagnies du Québec,* 1989	Raymond, Chabot, Martin, Paré
Institut EDI du Québec			
To assist software designers in marketing their products and suppliers in identifying software products in Quebec.	Ste. CT-228 Mezzanine World Trade Centre 393 St. Jacques W. Montreal, Quebec H2Y 1N9	*Loi sur les compagnies du Québec,* 1990	Samson Bélair Deloitte & Touche
Montréal International			
To promote the Greater Montreal area at an international level.	Suite 3200 380 St. Antoine W. Montreal, Quebec H2Y 3X7	*Loi sur les compagnies du Québec,* 1988	Raymond, Chabot, Martin, Paré
Plastiservices Inc.			
To provide services to businesses in the plastics industry in order to develop this industry in Montreal East.	Ste. 201 7777 Louis-H. Lafontaine, Anjou, Quebec H1K 4E4 (514) 355-2266	*Loi sur les compagnies du Québec,* 1994	Geoffroy Montcalm Lacasse

OTHER ENTITIES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Natural Resources			
Canada-Newfoundland Offshore Petroleum Board			
To administer the relevant provisions of the *Canada-Newfoundland Atlantic Accord Implementation Acts* as enacted by the Parliament of Canada and the Legislation of Newfoundland and Labrador. The Board is funded by equal contributions from both the federal and provincial governments.	6th floor, TD Centre 140 Water Street St. John's, Newfoundland A1C 6H6 (709) 778-1400	The *Canada-Newfoundland Atlantic Accord Implementation Acts,* 1985	Deloitte & Touche
Canada-Nova Scotia Offshore Petroleum Board			
To administer the relevant provisions of the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Acts* enacted by the Parliament of Canada and the Legislation of Nova Scotia. The Board is funded by both the federal and provincial governments with equal contributions.	6th Floor TD Centre 1791 Barrington Street Halifax, Nova Scotia B3N 3K9 (902) 422-5588	The *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act,* 1982	Deloitte & Touche
Forest Engineering Research Institute of Canada			
To conduct research and development aimed at improving the efficiency of operations relating to the harvesting and transportation of wood and to improving the equipment used for silvicultural and private woodlots forestry.	580 St. Jean Blvd. Pointe-Claire, Quebec H3R 3J9 (514) 694-1140	*Canada Corporations Act*, 1976	Samson Bélair Deloitte & Touche

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Natural Resources (continued)			
Forintek Canada Corporation			
To be the leading force in the technological advancement of the Canadian wood products industry, through creation and implementation of innovative concepts, processes, products, and education programs.	2665 East Mall University of British Columbia Vancouver, B.C. V6T 1W5 (604) 224-3221	*Canada Corporations Act*, 1979	Deloitte & Touche
Maritime Forestry Complex Corporation			
To establish a Maritime Provinces Regional Forestry Complex.	Hugh John Flemming Forestry Centre, RR #10, Fredericton, N.B. E3B 6H6 (506) 453-3801	*Maritime Forestry Complex Corporations Act*, New Brunswick, 1980	Deloitte & Touche
National Community Tree Foundation			
To promote public awareness and education regarding Canada's forests, to provide leadership and community action in building the conservation ethic in Canada and in co-ordinating actions and soliciting co-operation and funding, in support of tree planting and forest conservation.	Suite 1550 220 Laurier Avenue West Ottawa, Ontario K1P 5Z9 (613) 567-5545	*Canada Corporations Act*, 1991	KPMG Peat Marwick Thorne
Pulp and Paper Research Institute of Canada			
To enhance the technical competitiveness of its member companies through activities that support and supplement their own research and technical efforts.	570 Saint-Jean Blvd. Pointe Claire, Quebec H9R 3J9 (514) 630-4100	*Canada Companies Act*, 1950	Samson Bélair Deloitte & Touche

OTHER ENTITIES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Transport			
Blue Water Bridge Authority			
To acquire, hold, operate, maintain, repair and add to the Canadian portion of the Blue Water Bridge between Point Edward, Ontario and Port Huron, Michigan.	Bridge Street Point Edward, Ontario N7V 4J5 (519) 336-2720	*Blue Water Bridge Authority Act*, 1964	Deloitte & Touche
Buffalo and Fort Erie Public Bridge Authority			
To construct, maintain and operate the Peace Bridge between Buffalo, New York and Fort Erie, Ontario.	The Peace Bridge Peace Bridge Plaza Buffalo, N.Y. 14213 U.S.A. (905) 871-1608	*An Act respecting the Buffalo and Fort Erie Public Bridge Company,* 1934	Ernst & Young
Saint John Harbour Bridge Authority			
To construct a bridge across the Harbour of Saint John, to enter into agreements respecting the financing, construction and financial operation of the bridge, and to collect tolls and other charges for the operation and maintenance of the bridge.	29 King Street P.O. Box 3728, Station B West Saint John, N. B. E2M 5C1 (506) 635-1320	*An Act to establish a Harbour Bridge Authority in the City of Saint John,* 1962	Deloitte & Touche

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Transport (continued)			
CANADIAN AIRPORT AUTHORITIES:			
The mandate of a Canadian Airport Authority is to manage, operate and develop the airport(s) for which it is responsible in a safe, secure, efficient, cost effective and financially viable manner with reasonable airport user charges and equitable access to all air carriers; undertake and promote the development of the airport lands for which it is responsible for uses compatible with air transportation activities; and expand transportation facilities and generate economic activity in ways which are compatible with air transportation activities.			
Greater London International Airport Authority	Xenon Capital Corporation Suite 400, 248 Pall Mall St. London, Ontario N6A 5P6	*Canada Corporations Act*, Part II	To be appointed
Greater Moncton Airport Authority, The	Suite 110 236 St. George Street Moncton, N.B. E1C 1W1	*Canada Corporations Act*, Part II	To be appointed
Greater Toronto Airports Authority	P.O. Box 60311 Toronto AMF, Ontario L5P 1B2	*Canada Corporations Act*, Part II	To be appointed
Halifax International Airport	800 - 1959 Upper Water Street Halifax, N.S. B3J 2X2	*Canada Corporations Act*, Part II	To be appointed
Ottawa Macdonald-Cartier International Airport Authority	Suite 1132 Royal Bank Centre 90 Sparks Street Ottawa, Ontario K1P 5B4	*Canada Corporations Act*, Part II	To be appointed

OTHER ENTITIES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Transport (continued)			
Saint John Airport Transition Team	New Brunswick Telephone Company Limited One Brunswick Square P.O. Box 1430 Saint John, N.B. E2L 4K2	*Canada Corporations Act*, Part II	To be appointed
Saskatoon Airport Authority	700-122 First Ave. South Saskatoon Saskatchewan S7K 7E5	*Canada Corporations Act*, Part II	To be appointed
Société aéroportuaire de Québec	Maison régionale de l'industrie et du commerce du Québec 17 rue St-Louis, B.P. 430 Quebec City, Quebec G1R 3Y8	*Canada Corporations Act*, Part II	To be appointed
St. John's Regional Airport Planning Group	St. John's Board of Trade Baine Johnston Centre 10 Fort William Place P.O. Box 5127 St. John's, Nfld. A1C 5V5	*Canada Corporations Act*, Part II	To be appointed
Thunder Bay International Airports Authority Inc.	c/o Carrel & Partners P.O. Box 638 West Arthur Place Thunder Bay, Ontario P7B 4W6	*Canada Corporations Act*, Part II	To be appointed
Victoria Airport Authority	201-1640 Electra Blvd. Sydney, B.C. V8L 5V4	*Canada Corporations Act*, Part II	To be appointed

OTHER ENTITIES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Transport (Continued)			
Winnipeg Airports Authority Inc.	Room 249 2000 Wellington Ave. Winnipeg, Manitoba R3H 1C1	*Canada Corporations Act,* Part II	To be appointed
HARBOUR COMMISSIONS: To manage and control the harbour and the works and property therein under its jurisdiction. To develop the port and act as a catalyst in the utilization of port facilities and furthering trade nationally and internationally.			
Fraser River Harbour Commission	713 Columbia Street Suite 500 New Westminster, B.C. V3M 1B2 (604) 524-6655	*Harbour Commission Act,* 1964	Doane Raymond
Hamilton Harbour Commission	605 James Street N. Hamilton, Ontario L8L 1K1 (905) 525-4330	*Hamilton Harbour Commissioners Act,* 1957	Coopers & Lybrand
Nanaimo Harbour Commission	104 Front Street P.O. Box 131 Nanaimo, B.C. V9R 5K4 (604) 753-4146	*Harbour Commission Act,* 1964	Bestwick and Partners
North Fraser Harbour Commission	2020 Airport Road Richmond, B.C. V7B 1C6 (604) 273-1866	*Harbour Commission Act,* 1964	BDO Dunwoody

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Transport (continued)			
Oshawa Harbour Commission	1050 Farwell Street P.O. Box 492 Oshawa, Ontario L1H 6N6 (905) 576-0400	*Harbour Commission Act*, 1964	Deloitte & Touche
Port Alberni Harbour Commission	2750 Harbour Road P.O. Box 99 Port Alberni, B.C. V9Y 7W6 (604) 723-5312	*Harbour Commission Act*, 1964	Newman Hill Duncan & Lacoursière
Thunder Bay Harbour Commission	100 Main St. Thunder Bay, Ontario P7B 6R9 (807) 345-6400	*Harbour Commission Act*, 1964	KPMG Peat Marwick Thorne
Toronto Harbour Commission	60 Harbour Street Toronto, Ontario M5J 1B7 (416) 863-2065	*Toronto Harbour Commissioners Act*, 1911	KPMG Peat Marwick Thorne
Windsor Harbour Commission	500 Riverside Drive W. Windsor, Ontario N9A 5K6 (519) 258-5741	*Harbour Commission Act*, 1964	Coopers & Lybrand

OTHER ENTITIES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Minister of Transport (Continued)			
NAV CANADA			
To acquire, own, manage, operate and develop the Canadian civil air navigation system in a safe, secure, efficient and cost effective manner.	77 Metcalfe Street Ottawa, Ontario K1P 5L6	*Canada Corporations Act*, Part II, 1996	KPMG Peat Marwick Thorne
Minister of Veterans Affairs			
Army Benevolent Fund			
To relieve distress and promote the well being of Second World War veterans of the Canadian Army and their dependants through the provision of financial assistance.	245 Cooper Street Ottawa, Ontario K2P 0G2 (613) 996-6150	*Army Benevolent Fund Act*, 1947	Auditor General of Canada
Last Post Fund			
To ensure the provision of a dignified funeral and burial to eligible war veterans.	Suite 916 685 Cathcart St. Montreal, Quebec H3B 1M7 (514) 866-2727	Federal Charter, 1921	Consulting and Audit Canada

OTHER ENTITIES

Description and General Information

Responsible Minister Corporation Mandate/Government Objective	Head Office Information	Statutory Authority and Year Incorporated	Auditor
Prime Minister			
Nature Trust of British Columbia, The			
To purchase and preserve ecologically important parcels of land in B.C.	808-100 Park Royal South West Vancouver, B.C. V7T 1A2 (604) 925-1128	*Canada Corporations Act*, 1971	KPMG Peat Marwick Thorne
Vanier Institute of the Family, The			
To promote the spiritual and material well-being of Canadian families and to study their social, physical, mental, moral and financial environment and characteristics.	94 Centrepointe Drive Nepean, Ontario K2G 6B1 (613) 228-8500	*Canada Business Corporations Act*, 1965	McCay, Duff

BANKRUPTCY AND INSOLVENCY ACT

Description and General Information

The Superintendent of Bankruptcy has received shares in the following corporations from the trustee pursuant to the *Bankruptcy and Insolvency Act*:

1. Amertek Inc.
2. Autoskill International Inc.
3. Carvern International Industries Ltd.
4. Colby Resources Corp.
5. Kenloch Distillers Ltd.
6. Les laboratoires Quelab Inc.

Consolidated List of Crown Corporations and Other Corporate Interests of Canada

CONSOLIDATED LIST OF CROWN CORPORATIONS AND OTHER CORPORATE INTERESTS OF CANADA[1]

Name of Corporation	Category	Ministerial Portfolio
176422 Canada Inc.	Subsidiary of Montreal Port Corporation	Transport
1997 Brandon Canada Games Society Inc.	Other Entity	Canadian Heritage
1999 Corner Brook Canada Winter Games Host Society	Other Entity	Canadian Heritage
2717786 Canada Inc.	Subsidiary of Purolator Courier Ltd.	Public Works and Government Services
2875039 Canada Limited	Subsidiary of Canada Post Corporation	Public Works and Government Services
2875047 Canada Limited	Subsidiary of Canada Post Corporation	Public Works and Government Services
3106900 Canada Inc.	Subsidiary of Canada Post Corporation	Public Works and Government Services
3148131 Canada Limited	Subsidiary of Canada Lands Company Limited	Public Works and Government Services
964102 Ontario Inc.	Subsidiary of PCL Courier Holdings Inc.	Public Works and Government Services
AECL Technologies B.V.	Subsidiary of Atomic Energy of Canada Limited	Natural Resources
AECL Technologies Inc.	Subsidiary of Atomic Energy of Canada Limited	Natural Resources
African Development Bank	International Organization	Foreign Affairs
Agriculture Institute of Management in Saskatchewan, Inc.	Other Entity	Agriculture and Agri-Food
Agri-Food Innovation Fund	Other Entity	Agriculture and Agri-Food
Army Benevolent Fund	Other Entity	Veterans Affairs
Asian Development Bank	International Organization	Foreign Affairs
Asia-Pacific Foundation of Canada	Other Entity	Foreign Affairs
Association for the Export of Canadian Books	Other Entity	Canadian Heritage
Association québécoise des bio-industries	Other Entity	Industry (FORD-Q)
Association québécoise des fabricants de l'industrie médicale	Other Entity	Industry (FORD-Q)
Atlantic Pilotage Authority	Parent Crown Corporation	Transport
Atomic Energy of Canada Limited	Parent Crown Corporation	Natural Resources

1. Excluding corporations under the terms of the *Bankruptcy and Insolvency Act*.

Name of Corporation	Category	Ministerial Portfolio
B.C. Investment Agriculture Foundation	Other Entity	Agriculture and Agri-Food
Bank of Canada	Parent Crown Corporation	Finance
Bell Bray Golf Developments Incorporated	Associate of Enterprise Cape Breton Corporation	Industry
Blue Water Bridge Authority	Other Entity	Transport
Buffalo and Fort Erie Public Bridge Authority	Other Entity	Transport
Business Development Bank of Canada	Parent Crown Corporation	Industry
Cable North Microwave Limited	Associate of the Canadian Broadcasting Corporation	Canadian Heritage
Calgary Olympic Development Association	Other Entity	Canadian Heritage
Canada Council	Parent Crown Corporation	Canadian Heritage
Canada Deposit Insurance Corporation	Parent Crown Corporation	Finance
Canada Development Investment Corporation	Parent Crown Corporation	Finance
Canada Eldor Inc.	Subsidiary of Canada Development Investment Corporation	Finance
Canada Foundation for Innovation*	Other Entity	Industry
Canada Games Council	Other Entity	Canadian Heritage
Canada Hibernia Holding Corporation	Subsidiary of Canada Development Investment Corporation	Finance
Canada Lands Company Limited	Parent Crown Corporation	Public Works and Government Services
Canada Lands Company CLC Limited	Subsidiary of Canada Lands Company Limited	Public Works and Government Services
Canada Lands Company (Vieux-Port de Québec) Inc.	Subsidiary of Canada Lands Company Limited	Public Works and Government Services
Canada Mortgage and Housing Corporation	Parent Crown Corporation	Public Works and Government Services
Canada-Newfoundland Offshore Petroleum Board	Other Entity	Natural Resources
Canada-Nova Scotia Offshore Petroleum Board	Other Entity	Natural Resources
Canada Place Corporation	Subsidiary of Vancouver Port Corporation	Transport
Canada Ports Corporation	Parent Crown Corporation	Transport
Canada Post Corporation	Parent Crown Corporation	Public Works and Government Services
Canada Post Holdings	Subsidiary of Canada Post Corporation	Public Works and Government Services

* The Canada Foundation for Innovation became a legal entity with the April 25, 1997 passage of the *Budget Implementation Act.*

Name of Corporation	Category	Ministerial Portfolio
Canada Post Systems Management Ltd.	Subsidiary of Canada Post Corporation	Public Works and Government Services
Canada Television and Cable Production Fund	Other Entity	Canadian Heritage
Canadian Broadcasting Corporation	Parent Crown Corporation	Canadian Heritage
Canadian Centre for Swine Improvement	Other Entity	Agriculture and Agri-Food
Canadian Centre on Substance Abuse	Other Entity	Health
Canadian Commercial Corporation	Parent Crown Corporation	International Trade
Canadian Dairy Commission	Parent Crown Corporation	Agriculture and Agri-Food
Canadian Dairy Network	Other Entity	Agriculture and Agri-Food
Canadian Farm Business Management Council	Other Entity	Agriculture and Agri-Food
Canadian Film Development Corporation	Parent Crown Corporation	Canadian Heritage
Canadian Fitness and Lifestyle Research Institute	Other Entity	Health
Canadian International Grains Institute	Other Entity	Agriculture and Agri-Food
Canadian Livestock Records Corporation	Other Entity	Agriculture and Agri-Food
Canadian Museum of Civilization	Parent Crown Corporation	Canadian Heritage
Canadian Museum of Nature	Parent Crown Corporation	Canadian Heritage
Canadian Race Relations Foundation	Parent Crown Corporation	Canadian Heritage
Canadian Sport and Fitness Administration Centre	Other Entity	Canadian Heritage
Canadian Teleservices Corporation	Subsidiary of Purolator Courier Ltd.	Public Works and Government Services
Canadian Tennis Technology Limited	Associate of Enterprise Cape Breton Corporation	Industry
Canadian Wheat Board, The	Parent Crown Corporation	Natural Resources/ Canadian Wheat Board
Cape Breton Carbofuels Limited	Subsidiary of Cape Breton Development Corporation	Natural Resources
Cape Breton Development Corporation	Parent Crown Corporation	Natural Resources
Cape Breton Marine Farming Limited	Subsidiary of Enterprise Cape Breton Corporation	Industry
Caribbean Development Bank	International Organization	Foreign Affairs
Centre de développement du porc du Québec Inc.	Other Entity	Agriculture and Agri-Food
Centre d'entreprises et d'innovation de Montréal	Other Entity	Industry (FORD-Q)
Club Export Agro-alimentaire du Québec	Other Entity	Agriculture and Agri-Food
CN Tower Limited	Subsidiary of Canada Lands Company Limited	Public Works and Government Services
Coaching Association of Canada	Other Entity	Canadian Heritage

Name of Corporation	Category	Ministerial Portfolio
Cominco Ltd.	Associate of Business Development Bank of Canada	Industry
Commonwealth Centre for Sport Development	Other Entity	Canadian Heritage
Commonwealth War Graves Commission	International Organization	Veterans Affairs
Conseil de promotion du logiciel québécois	Other Entity	Industry (FORD-Q)
Conseil de recherches en pêche et agroalimentaire du Québec	Other Entity	Agriculture and Agri-Food
Cooperative Vereniging International Post Corporation U.A.	Associate of Canada Post Corporation	Public Works and Government Services
DARR (Cape Breton) Limited	Subsidiary of Enterprise Cape Breton Corporation	Industry
Defence Construction (1951) Limited	Parent Crown Corporation	Public Works and Government Services
Distribution Management Services Inc.	Subsidiary of Purolator Courier Ltd.	Public Works and Government Services
Enterprise Cape Breton Corporation	Parent Crown Corporation	Industry
European Bank for Reconstruction and Development	International Organization	Finance
Exinvest Inc.	Subsidiary of Export Development Corporation	International Trade
Export Development Corporation	Parent Crown Corporation	International Trade
Farm Credit Corporation	Parent Crown Corporation	Agriculture and Agri-Food
Fondation du maire de Montréal pour la Jeunesse	Other Entity	Industry (FORD-Q)
Fonds de développement-emploi Montréal	Other Entity	Industry (FORD-Q)
Forest Engineering Research Institute of Canada	Other Entity	Natural Resources
Forintek Canada Corporation	Other Entity	Natural Resources
Fraser River Harbour Commission	Other Entity	Transport
Freshwater Fish Marketing Corporation	Parent Crown Corporation	Fisheries and Oceans
GEAGRI	Other Entity	Agriculture and Agri-Food
General Mining Building Limited	Associate of Enterprise Cape Breton Corporation	Industry
Great Lakes Fishery Commission	International Organization	Fisheries and Oceans
Great Lakes Pilotage Authority, Ltd.	Subsidiary of The St. Lawrence Seaway Authority; Parent Crown Corporation pursuant to the *Pilotage Act*	Transport
Greater London International Airport Authority	Other Entity	Transport

Name of Corporation	Category	Ministerial Portfolio
Greater Moncton Airport Authority, The	Other Entity	Transport
Greater Toronto Airports Authority	Other Entity	Transport
Gulf Bras D'Or Estates Limited	Subsidiary of Enterprise Cape Breton Corporation	Industry
Halifax International Airport	Other Entity	Transport
Halifax Port Corporation	Parent Crown Corporation	Transport
Hamilton Harbour Commission	Other Entity	Transport
Hibernia Management and Development Company Ltd.	Associate of Canada Hibernia Holding Corporation	Finance
Inno-Centre	Other Entity	Industry (FORD-Q)
Institut de design Montréal	Other Entity	Industry (FORD-Q)
Institut EDI du Québec	Other Entity	Industry (FORD-Q)
Inter-American Development Bank	International Organization	Foreign Affairs
International Bank for Reconstruction and Development	International Organization	Finance
International Boundary Commission	International Organization	Foreign Affairs
International Centre for Human Rights and. Democratic Development	Other Entity	Foreign Affairs
International Development Association	International Organization	Finance
International Development Research Centre	Parent Crown Corporation	Foreign Affairs
International Finance Corporation	International Organization	Finance
International Fisheries Commissions Pension Society	Other Entity	Fisheries and Oceans
International Lake Memphremagog Levels Board	International Organization	Environment
International Lake of the Woods Control Board	International Organization	Environment
International Monetary Fund	International Organization	Finance
International Niagara Committee	International Organization	Environment
International Pacific Halibut Commission	International Organization	Fisheries and Oceans
International Porcupine Caribou Board	International Organization	Environment
IPC Technology S.C.	Subsidiary of Cooperative Vereniging International Post Corporation U.A.	Public Works and Government Services
IPC Unipost S.C.	Subsidiary of Cooperative Vereniging International Post Corporation U.A.	Public Works and Government Services
Last Post Fund	Other Entity	Veterans Affairs
Laurentian Pilotage Authority	Parent Crown Corporation	Transport
Le Consortium de télévision Québec Canada Inc. (TV5)	Other Entity	Canadian Heritage

Name of Corporation	Category	Ministerial Portfolio
Lower Churchill Development Corporation Limited	Joint Enterprise	Natural Resources
Lynwood Inn Limited	Associate of Enterprise Cape Breton Corporation	Industry
Manitoba Crop Diversification Centre	Other Entity	Agriculture and Agri-Food
Marine Atlantic Inc.	Parent Crown Corporation	Transport
Maritime Forestry Complex Corporation	Other Entity	Natural Resources
Master FM Limited	Associate of the Canadian Broadcasting Corporation	Canadian Heritage
Meicor Inc.	Subsidiary of Theratronics International Limited	Finance
Montréal International	Other Entity	Industry (FORD-Q)
Montreal Port Corporation	Parent Crown Corporation	Transport
Multilateral Investment Guarantee Agency	International Organization	Finance
Nanaimo Harbour Commission	Other Entity	Transport
National Arts Centre Corporation	Parent Crown Corporation	Canadian Heritage
National Capital Commission	Parent Crown Corporation	Canadian Heritage
National Community Tree Foundation	Other Entity	Natural Resources
National Gallery of Canada	Parent Crown Corporation	Canadian Heritage
National Museum of Science and Technology	Parent Crown Corporation	Canadian Heritage
National Sea Products Limited	Mixed Enterprise	Finance
National Sport Centre — Calgary	Other Entity	Canadian Heritage
Nature Trust of British Columbia, The	Other Entity	Prime Minister
NAV CANADA	Other Entity	Transport
North American Commission for Environmental Cooperation — Joint Public Advisory Committee	International Organization	Environment
North Fraser Harbour Commission	Other Entity	Transport
North Portage Development Corporation & The Forks Renewal Corporation	Joint Enterprise	Industry (Western Economic Diversification)
Northern Native Fishing Corporation	Other Entity	Indian Affairs and Northern Development
NPM Nuclear Project Managers Canada Inc.	Mixed Enterprise	Natural Resources
Old Port of Montreal Corporation Inc.	Subsidiary of Canada Lands Company Limited; reports as a parent Crown corporation pursuant to subsection 86(2) of the *Financial Administration Act.*	Public Works and Government Services
Ontario Agriculture Training Institute	Other Entity	Agriculture and Agri-Food
Oshawa Harbour Commission	Other Entity	Transport
Ottawa Macdonald-Cartier International Airport Authority	Other Entity	Transport

Name of Corporation	Category	Ministerial Portfolio
Pacific Pilotage Authority	Parent Crown Corporation	Transport
Pacific Salmon Commission	International Organization	Fisheries and Oceans
Pan American Games Society (WPG 1999) Inc.	Other Entity	Canadian Heritage
PARTICIPaction	Other Entity	Health
PCL Courier Holdings Inc.	Subsidiary of Canada Post Holdings	Public Works and Government Services
Petro-Canada	Mixed Enterprise	Finance
Petro-Canada Limited	Parent Crown Corporation	Finance
Plastiservices Inc.	Other Entity	Industry (FORD-Q)
Port Alberni Harbour Commission	Other Entity	Transport
Port of Quebec Corporation	Parent Crown Corporation	Transport
POS Pilot Plant Corporation	Other Entity	Agriculture and Agri-Food
Prince Rupert Port Corporation	Parent Crown Corporation	Transport
Pulp and Paper Research Institute of Canada	Other Entity	Natural Resources
Purolator Courier Ltd.	Subsidiary of PCL Courier Holdings Inc.	Public Works and Government Services
Purolator Customs Services Ltd.	Subsidiary of Purolator Courier Ltd.	Public Works and Government Services
Queens Quay West Land Corporation	Parent Crown Corporation	Public Works and Government Services
Ridley Terminals Inc.	Subsidiary of Canada Ports Corporation	Transport
Roosevelt Campobello International Park Commission	Other Entity	Foreign Affairs
Royal Canadian Mint	Parent Crown Corporation	Public Works and Government Services
Saint John Airport Transition Team	Other Entity	Transport
Saint John Harbour Bridge Authority	Other Entity	Transport
Saint John Port Corporation	Parent Crown Corporation	Transport
St. John's Port Corporation	Parent Crown Corporation	Transport
St. John's Regional Airport Planning Group	Other Entity	Transport
St. Lawrence Seaway Authority, The	Parent Crown Corporation	Transport
Saskatoon Airport Authority	Other Entity	Transport
Silver Screen Star Limited	Associate of Enterprise Cape Breton Corporation	Industry
Société aéroportuaire de Québec	Other Entity	Transport
Société du parc industriel et portuaire Québec-Sud	Joint Enterprise	Industry (FORD-Q)

Name of Corporation	Category	Ministerial Portfolio
Sport Information Resource Centre	Other Entity	Canadian Heritage
Standards Council of Canada	Parent Crown Corporation	Industry
Supercourier (1987) Ltd.	Subsidiary of Purolator Courier Ltd.	Public Works and Government Services
Terry Fox Humanitarian Award Inc.	Other Entity	Health
The Jacques Cartier and Champlain Bridges Incorporated	Subsidiary of The St. Lawrence Seaway Authority	Transport
The Seaway International Bridge Corporation, Ltd.	Subsidiary of The St. Lawrence Seaway Authority	Transport
Theratronics International Limited	Subsidiary of Canada Development Investment Corporation	Finance
Thunder Bay Harbour Commission	Other Entity	Transport
Thunder Bay International Airports Authority Inc.	Other Entity	Transport
Toronto Harbour Commission	Other Entity	Transport
Vancouver Port Corporation	Parent Crown Corporation	Transport
Vanier Institute of the Family, The	Other Entity	Prime Minister
Varity Corporation	Associate of Canada Development Investment Corporation	Finance
VIA Rail Canada Inc.	Parent Crown Corporation	Transport
Victoria Airport Authority	Other Entity	Transport
Visnews Limited	Associate of the Canadian Broadcasting Corporation	Canadian Heritage
Western Grains Research Foundation	Other Entity	Agriculture and Agri-Food
Wildlife Habitat Canada	Other Entity	Environment
Windsor Harbour Commission	Other Entity	Transport
Winnipeg Airports Authority Inc.	Other Entity	Transport

TABLING OF REPORTS IN PARLIAMENT

The Importance of Adequate and Timely Information to Parliament

The provision of adequate and timely information to Parliament is a major objective of the control and accountability regime for Crown corporations. A well-functioning accountability framework is based on the premise that Parliament and the government will receive useful information that will allow active judgement of corporate performance.

Corporations report on their performance through the corporate plan summary and the annual report. For each Crown corporation listed in Part I and Part II of Schedule III of the *Financial Administration Act* (FAA), the appropriate minister tables a corporate plan summary, a capital budget summary and an annual report in Parliament. In addition, an operating budget summary is tabled for Crown corporations listed in Part I of Schedule III.

The corporate plan and budget summaries inform Parliament of the major strategic and financial elements of each Crown corporation. The summaries are based on the approved corporate plan and budgets, and cover the businesses, activities and investments of a corporation and of its wholly owned subsidiaries with respect to its future operations. A corporation's annual report informs Parliament of the corporation's performance relative to the objectives, strategies and activities approved by the government and tabled in the previous corporate plan and budget summaries.

Reports Tabled in Parliament

This section shows the tablings in Parliament, by appropriate ministers, of Crown corporation documents for the year ended July 31, 1997 pursuant to subsection 152(1) of the FAA.

The table below provides a record of tablings of annual reports and summaries for the period from August 1, 1996 to July 31, 1997. In particular, it contains information on those documents tabled or due to be tabled during the current reporting period, as well as documents due to be tabled in a previous reporting period and actually tabled during the current one. In some cases, the deadline falls after July 31, 1997, and, because future sitting days cannot be predicted, the deadlines have not been calculated. Where the deadline has not been calculated and the report has been tabled, it is considered on time and will not be reported in future years.

Subsection 152(2) of the FAA requires the Auditor General of Canada to attest to the accuracy of this information in the Auditor General's annual report to the House of Commons.

The Deadlines for Tabling in Parliament

The sitting dates used to calculate deadlines are drawn from the House of Commons *Journals* and the Senate *Journals*.

The deadlines for tabling, before each House of Parliament, the corporate plan summary, budget summaries and annual report are:

- **Corporate Plan Summary:** 30 sitting days after approval by the Governor in Council of the corporate plan. A summary of an amended corporate plan has the same deadline.
- **Capital and Operating Budget Summaries:** 30 sitting days after Treasury Board approval of the budget. Where the operating and/or capital budgets are incorporated into the corporate plan, the deadlines for the budget summaries are the same as those for the corporate plan summary.
- **Annual Report:** A corporation is to submit, to the appropriate minister, an annual report within three months of its financial year-end. The appropriate minister has 15 sitting days to table the annual report in each House of Parliament. The deadline is calculated from the date on which the appropriate minister acknowledges receipt of the report, when available, or three months following the fiscal year-end of the corporation, whichever is earlier.

Further Information

Information on annual reports and corporate plan and budget summaries may be obtained by contacting the individual corporations. The Corporate Abstracts section of this report provides additional information on individual Crown corporations.

TABLING OF REPORTS IN PARLIAMENT BY SCHEDULED PARENT CROWN CORPORATIONS DURING THE YEAR ENDED JULY 31, 1997

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Atlantic Pilotage Authority					
1996	Annual Report	1997-04-25	1997-04-07	n/av	1997-04-08
1997	Capital Budget Summary	1997-04-07	1997-04-07	1997-04-24	1997-04-08
1997	Operating Budget Summary	1997-04-07	1997-04-07	1997-04-24	1997-04-08
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-04-07	1997-04-24	1997-04-08
Atomic Energy of Canada Limited					
1995/96	Annual Report	1996-10-04	1996-07-17	1996-11-05	1996-09-24
Canada Deposit Insurance Corporation					
1997/98	Capital Budget Summary	n/av	1997-04-25	n/av	no
1997/98	Operating Budget Summary	n/av	1997-04-25	n/av	no
1997/98 to 2001/02	Corporate Plan Summary	n/av	1997-04-25	n/av	no
Canada Development Investment Corporation					
1996	Annual Report	1997-04-25	1997-04-17	n/av	1997-04-21
1997	Capital Budget Summary	1997-04-07	1997-04-07	1997-04-24	1997-04-08
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-04-07	1997-04-24	1997-04-08
Canada Lands Company Limited					
1995/96	Annual Report	1996-10-04	1996-08-21	1996-11-05	1996-09-24

In this table, n/av means not available.

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Canada Mortgage and Housing Corporation					
1996	Annual Report	1997-04-25	1997-04-24	n/av	no
1996	Operating Budget Summary Amendment	1997-04-07	1997-03-21	1997-04-24	1997-04-08
1997	Capital Budget Summary	1997-04-07	1997-03-21	1997-04-24	1997-04-08
1997	Operating Budget Summary	1997-04-07	1997-03-21	1997-04-24	1997-04-08
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-21	1997-04-24	1997-04-08
Canada Ports Corporation [1]					
1997	Capital Budget Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
Canadian Commercial Corporation					
1995/96	Annual Report	1996-10-02	1996-07-17	1996-10-30	1996-09-24
Canadian Dairy Commission					
1995/96	Annual Report	1996-11-28	1996-11-07	1996-12-16	1996-11-25
1996/97	Capital Budget Summary	1996-11-04	1996-10-24	1996-12-17	1996-10-28
1996/97	Operating Budget Summary	1996-11-04	1996-10-24	1996-12-17	1996-10-28
1996/97 to 2000/01	Corporate Plan Summary	1996-11-04	1996-10-24	1996-12-17	1996-10-28
Canadian Museum of Civilization					
1995/96	Annual Report	1996-10-04	1996-08-21	1996-11-05	1996-09-24
1996/97	Capital Budget Summary	1996-11-04	1996-11-07	1996-12-17	1996-11-25
1996/97	Operating Budget Summary	1996-11-04	1996-11-07	1996-12-17	1996-11-25
1996/97 to 2000/01	Corporate Plan Summary	1996-11-04	1996-11-07	1996-12-17	1996-11-25

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Canadian Museum of Nature					
1995/96	Capital Budget Summary	1996-11-04	1996-11-07	1996-12-17	1996-11-25
1995/96	Operating Budget Summary	1996-11-04	1996-11-07	1996-12-17	1996-11-25
1995/96 to 1999/2000	Corporate Plan Summary	1996-11-04	1996-11-07	1996-12-17	1996-11-25
1995/96	Annual Report	1996-10-04	1996-08-21	1996-11-05	1996-09-24
1996/97	Capital Budget Summary	1996-11-04	1996-11-07	1996-12-17	1996-11-25
1996/97	Operating Budget Summary	1996-11-04	1996-11-07	1996-12-17	1996-11-25
1996/97 to 2000/01	Corporate Plan Summary	1996-11-04	1996-11-07	1996-12-17	1996-11-25
Cape Breton Development Corporation					
1995/96	Annual Report	1996-10-04	1996-07-17	1996-11-05	1996-09-24
Defence Construction (1951) Limited					
1995/96	Annual Report	1996-10-02	1996-07-17	1996-10-30	1996-09-24
Enterprise Cape Breton Corporation					
1994/95	Capital Budget Summary	1994-11-04	1996-07-17	1995-03-01	1996-09-24
1994/95	Operating Budget Summary	1994-11-04	1996-07-17	1995-03-01	1996-09-24
1994/95 to 1998/99	Corporate Plan Summary	1994-11-04	1996-07-17	1995-03-01	1996-09-24
1995/96	Annual Report	1996-10-04	1996-07-17	1996-11-05	1996-09-24
1996/97	Capital Budget Summary	1996-05-30	1996-07-17	1996-10-01	1996-09-24
1996/97	Operating Budget Summary	1996-05-30	1996-07-17	1996-10-01	1996-09-24
1996/97 to 2000/01	Corporate Plan Summary	1996-05-30	1996-07-17	1996-10-01	1996-09-24
1996/97	Capital Budget Summary Amendment	1996-12-06	no	1997-02-12	no
1996/97	Operating Budget Summary Amendment	1996-12-06	no	1997-02-12	no
Export Development Corporation					
1996	Annual Report	1997-04-18	1997-03-17	n/av	1997-03-18
1997	Capital Budget Summary	1997-04-07	1997-03-07	1997-04-24	1997-03-10
1997	Operating Budget Summary	1997-04-07	1997-03-07	1997-04-24	1997-03-10
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-07	1997-04-24	1997-03-10

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Freshwater Fish Marketing Corporation					
1995/96	Annual Report	1996-10-04	1996-10-29	1996-11-05	1996-10-30
Great Lakes Pilotage Authority, Ltd.					
1996	Annual Report	1997-04-25	1997-04-07	n/av	1997-04-08
1997	Capital Budget Summary	1997-04-07	1997-04-07	1997-04-24	1997-04-08
1997	Operating Budget Summary	1997-04-07	1997-04-07	1997-04-24	1997-04-08
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-04-07	1997-04-24	1997-04-08
Halifax Port Corporation[1]					
1996	Annual Report	1997-04-25	no	n/av	no
1997	Capital Budget Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
Laurentian Pilotage Authority					
1996	Capital Budget Summary	1996-11-04	1996-09-26	1996-12-17	1996-10-01
1996	Operating Budget Summary	1996-11-04	1996-09-26	1996-12-17	1996-10-01
1996 to 2000	Corporate Plan Summary	1996-11-04	1996-09-26	1996-12-17	1996-10-01
1996	Annual Report	1997-04-25	1997-04-07	n/av	1997-04-08
1997	Capital Budget Summary	n/av	1997-04-07	n/av	1997-04-08
1997	Operating Budget Summary	n/av	1997-04-07	n/av	1997-04-08
1997 to 2001	Corporate Plan Summary	n/av	1997-04-07	n/av	1997-04-08
Marine Atlantic Inc.					
1996	Annual Report	1997-04-25	no	n/av	no
1997	Capital Budget Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1997	Operating Budget Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
Montreal Port Corporation[1]					
1996	Annual Report	1997-04-25	no	n/av	no
1997	Capital Budget Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
National Capital Commission					
1995/96	Annual Report	1996-10-04	1996-08-21	1996-11-05	1996-09-24
1996/97	Capital Budget Summary	1996-09-27	1996-08-21	1996-10-31	1996-09-24
1996/97	Operating Budget Summary	1996-09-27	1996-08-21	1996-10-31	1996-09-24
1996/97 to 2000/01	Corporate Plan Summary	1996-09-27	1996-08-21	1996-10-31	1996-09-24
National Gallery of Canada					
1995/96	Annual Report	1996-10-04	1996-10-07	1996-11-05	no
1996/97	Capital Budget Summary	1996-11-04	1996-11-27	1996-12-17	1996-12-03
1996/97	Operating Budget Summary	1996-11-04	1996-11-27	1996-12-17	1996-12-03
1996/97 to 2000/01	Corporate Plan Summary	1996-11-04	1996-11-27	1996-12-17	1996-12-03
National Museum of Science and Technology					
1995/96	Annual Report	1996-10-04	1996-08-21	1996-11-05	1996-09-24
1996/97	Capital Budget Summary	1996-11-04	1996-08-21	1996-12-17	1996-09-24
1996/97	Operating Budget Summary	1996-11-04	1996-08-21	1996-12-17	1996-09-24
1996/97 to 2000/01	Corporate Plan Summary	1996-11-04	1996-08-21	1996-12-17	1996-09-24
Old Port of Montreal Corporation Inc.					
1995/96	Annual Report	1996-10-04	1996-07-17	1996-11-05	1996-09-24
1996/97	Capital Budget Summary	1996-10-04	no	1996-11-25	no
1996/97	Operating Budget Summary	1996-10-04	no	1996-11-25	no
1996/97 to 2000/01	Corporate Plan Summary	1996-10-04	no	1996-11-25	no
Pacific Pilotage Authority					
1996	Annual Report	1997-04-25	1997-04-07	n/av	1997-04-08
1997	Capital Budget Summary	1997-04-07	1997-04-07	1997-04-24	1997-04-08
1997	Operating Budget Summary	1997-04-07	1997-04-07	1997-04-24	1997-04-08
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-04-07	1997-04-24	1997-04-08
Petro-Canada Limited					
1996	Annual Report	1997-04-25	1997-04-09	n/av	1997-04-10
1997	Capital Budget Summary	1997-04-07	1997-03-06	1997-04-24	1997-03-10
1997	Operating Budget Summary	1997-04-07	1997-03-06	1997-04-24	1997-03-10
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-06	1997-04-24	1997-03-10

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Port of Quebec Corporation[1]					
1996	Annual Report	1997-04-25	no	n/av	no
1996	Capital Budget Summary Amendment	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1996 to 2000	Corporate Plan Summary Amendment	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1997	Capital Budget Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
Prince Rupert Port Corporation[1]					
1996	Annual Report	1997-04-25	no	n/av	no
1997	Capital Budget Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
Queens Quay West Land Corporation					
1995/96	Annual Report	1996-10-02	1996-07-17	1996-10-30	1996-09-24
Royal Canadian Mint					
1996	Capital Budget Summary	1996-04-30	1996-03-29	1996-06-18	1996-09-24
1996 to 2000	Corporate Plan Summary	1996-04-30	1996-03-29	1996-06-18	1996-09-24
1996	Annual Report	1997-04-25	1997-04-22	n/av	1997-04-23
1997	Capital Budget Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
Saint John Port Corporation[1]					
1996	Annual Report	1997-04-25	no	n/av	no
1997	Capital Budget Summary	1997-04-07	1997-03-17	1997-03-24	1997-03-18
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-17	1997-03-24	1997-03-18
St. John's Port Corporation[1]					
1996	Annual Report	1997-04-25	no	n/av	no
1997	Capital Budget Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
St. Lawrence Seaway Authority, The					
1995/96	Annual Report	1996-10-04	1996-07-17	1996-11-05	1996-09-24
Standards Council of Canada					
1995/96	Annual Report	1996-10-04	1996-07-17	1996-11-05	1996-09-24

Document to be Tabled		House of Commons		Senate	
		Deadline	Tabled	Deadline	Tabled
Vancouver Port Corporation[1]					
1996	Annual Report	1997-04-25	no	n/av	no
1997	Capital Budget Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
1997 to 2001	Corporate Plan Summary	1997-04-07	1997-03-17	1997-04-24	1997-03-18
VIA Rail Canada Inc.					
1996	Annual Report	1997-04-25	1997-04-24	n/av	no

1. The *Canada Ports Corporation Act* specifies that the annual report of the Canada Ports Corporation shall include the annual reports of the local port corporations and that it shall be submitted to the appropriate minister no later than "four months" after the financial year-end. These reports are tabled as one document.

ANNEX

Audited Financial Statements for Each Parent Crown Corporation

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INTRODUCTION

The Annex contains the audited financial statements for each parent Crown corporation. Also included, where appropriate, are the financial statements of wholly owned subsidiaries not consolidated with the statements of the parent corporation.

Much of the information in the Overview of the Portfolio and the Corporate Abstracts sections of this report to Parliament is extracted from these audited statements. For more information, the reader should contact the corporations directly.

ATLANTIC PILOTAGE AUTHORITY

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements have been prepared by the Authority's management in accordance with generally accepted accounting principles consistently applied, using management's best estimates and judgements, where appropriate. Management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide timely, accurate financial reports.

The Authority's management recognizes the responsibility of conducting its affairs in compliance with the *Pilotage Act* and regulations, the *Financial Administration Act* and regulations, and the by-laws of the Authority.

The Authority is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Authority exercises its responsibilities through its Audit Committee, which is composed of members who are not employees of the Authority. The Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Authority on the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the transactions and financial statements of the Authority in accordance with generally accepted auditing standards, and expresses his opinion on the financial statements. He has full and free access to the Audit Committee of the Authority, and his report follows.

R. A. McGuinness
Chairman and Chief Executive Officer

M. R. McGrath
Treasurer

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of Atlantic Pilotage Authority as at December 31, 1996 and the statements of operations, contributed capital, deficit, and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, and the by-laws of the Authority.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 17, 1997

ATLANTIC PILOTAGE AUTHORITY—*Continued*

BALANCE SHEET AS AT DECEMBER 31, 1996

ASSETS	1996	1995
	$	$
Current		
Cash and short-term investment (Note 3)	739,278	115,958
Accounts receivable, net (Note 3)	1,037,150	934,926
Prepaid expenses	26,056	26,058
	1,802,484	1,076,942
Capital assets, at cost (Note 4)	2,496,785	2,420,484
Less: accumulated amortization	1,710,864	1,650,531
	785,921	769,953
	2,588,405	1,846,895

LIABILITIES	1996	1995
	$	$
Current		
Accounts payable and accrued liabilities (Note 3)	736,673	677,387
Current portion of accrued employee termination benefits	39,184	
Deferred rent (Note 5)	6,091	32,760
	781,948	710,147
Long-term		
Accrued employee termination benefits	662,099	628,744
	1,444,047	1,338,891
Commitments (Note 7)		
CONTRIBUTED CAPITAL AND DEFICIT		
Contributed capital	2,304,546	2,304,546
Deficit	(1,160,188)	(1,796,542)
	1,144,358	508,004
	2,588,405	1,846,895

See accompanying notes.

Approved by the Authority:

R. A. McGUINNESS
Chairman

D. MacALPINE
Member

ATLANTIC PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Income		
Pilotage charges	7,988,021	7,605,146
Other income	41,660	36,733
	8,029,681	7,641,879
Expenses		
Pilots' fees, salaries and benefits	3,742,862	3,821,513
Pilot boats, operating costs	2,324,708	2,267,193
Staff salaries and benefits	514,612	502,979
Transportation and travel	341,959	337,737
Utilities, materials and supplies	157,067	150,961
Professional and special services	139,783	210,311
Amortization	134,083	128,123
Rentals	116,221	108,005
Communications	66,347	57,434
	7,537,642	7,584,256
Net profit from operations	492,039	57,623
Gain from settlement of lawsuit (Note 8)	144,315	
Net profit for the year	636,354	57,623

See accompanying notes.

STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Balance, beginning of the year	2,304,546	2,286,410
Parliamentary appropriations to finance prior years' additions to capital assets		18,136
Balance, end of the year	2,304,546	2,304,546

See accompanying notes.

STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Balance, beginning of the year	1,796,542	1,882,331
Net profit for the year	(636,354)	(57,623)
	1,160,188	1,824,708
Parliamentary appropriations to finance cash operating losses		(28,166)
Balance, end of the year	1,160,188	1,796,542

See accompanying notes.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Operating activities		
Cash provided by (used for) operations		
Net profit from operations for the year	492,039	57,623
Items not requiring cash		
Amortization	134,083	128,123
Increase in accrued employee termination benefits	86,906	74,265
Decrease in deferred rent	(26,669)	(11,853)
	686,359	248,158
Cash provided by gain on settlement of lawsuit	144,315	
Cash provided by (used for) non-cash working capital	(42,936)	88,902
Employee termination benefit payments	(14,367)	(128,307)
Cash provided by operating activities	773,371	208,753
Financing activities		
Parliamentary appropriations to finance		
Cash operating losses		28,166
Additions to capital assets		18,136
Cash provided by financing activities		46,302
Investing activities		
Net additions to capital assets	(150,051)	(50,923)
Cash used for investing activities	(150,051)	(50,923)
Increase in cash and short-term investment during the year	623,320	204,132
Cash and short-term investment (bank indebtedness), beginning of the year	115,958	(88,174)
Cash and short-term investment, end of the year	739,278	115,958

See accompanying notes.

ATLANTIC PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

1. Objectives and activities

The Atlantic Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act.* The objects of the Authority are to establish, operate, maintain, and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that pilotage tariffs shall be fair, reasonable, and sufficient, together with any revenue from other sources, to permit the Authority to operate on a self-sustaining financial basis. The Authority was informed by the Department of Transport effective April 1, 1996 that parliamentary appropriations are no longer available to defray any cash operating losses.

The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act.*

2. Significant accounting policies

(a) Parliamentary appropriations

Parliamentary appropriations received to cover cash operating losses are recorded in the accounts when approved by Parliament and are reflected in the statement of deficit.

Parliamentary appropriations provided for the purchase of capital assets are recorded in the accounts when approved by Parliament and are reflected in the statement of contributed capital.

(b) Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful life of the assets as follows:

Pilot boats	10 to 25 years
Furniture and equipment	5 to 10 years

(c) Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid. The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(d) Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded as they accrue to the employees.

3. Financial instruments

The Authority has a Government of Canada Treasury Bill in the amount of $299,170. The effective rate of interest is 2.48% and matures on February 27, 1997.

Accounts receivable and accounts payable are incurred in the normal course of business. Both are due on demand. The carrying amounts of each financial instrument approximate fair values because of their short maturity. There are no concentrations of accounts receivable with any one customer.

4. Capital assets

	1996			1995		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	(in thousands of dollars)					
Land	1		1	1		1
Pilot boats	2,220	1,465	755	2,132	1,398	734
Furniture and equipment	276	246	30	287	252	35
	2,497	1,711	786	2,420	1,650	770

5. Deferred rent

During 1992, the Authority was given a period of free rent, exclusive of operating costs and property taxes, as an incentive to sign a five year lease agreement for office space. The incentive is being amortized over the life of the lease which ends in February 1997.

6. Related party transactions

The Authority receives services from government departments and these are provided without charge. These include pilot dispatching services by the Canadian Coast Guard, through its Vessel Traffic Service Centres in Nova Scotia, New Brunswick and Newfoundland and Labrador. The cost of these services is not recorded in the accounts of the Authority.

7. Commitments

The Authority has entered into contracts for pilot boat services, office rentals, and wharfage rentals requiring the following minimum annual payments:

	$
1997	767,494
1998	283,658
1999-2001	134,263
	1,185,415

8. Lawsuit

The Authority had previously recognized a liability of $294,315 for a lawsuit and post judgement costs. During the year the Authority reached an out-of-court settlement with the other party. As a result the Authority has recognized the difference between the original judgement and the settlement as a gain of $144,315 in the year.

ATOMIC ENERGY OF CANADA LIMITED

MANAGEMENT RESPONSIBILITY

The consolidated financial statements, all other information presented in this Annual Report and the financial reporting process are the responsibility of the management and the Board of Directors of the Corporation. Except for the non-recognition of future decommissioning costs, which is explained in the notes to the consolidated financial statements, these statements have been prepared in accordance with generally accepted accounting principles and include estimates based on the experience and judgement of management. In the case of decommissioning costs, the Corporation has chosen, in the interest of what it considers to be a fairer overall presentation, to continue its established policy of expensing such costs as decommissioning activities take place.

The Corporation and its subsidiaries maintain books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and accurate financial information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with Part X of the *Financial Administration Act* and its regulations, as well as the *Canada Business Corporations Act*, the articles, and the by-laws and policies of the Corporation and its subsidiaries. The Corporation has met all reporting requirements established by the *Financial Administration Act*, including submission of a corporate plan, an operating budget, a capital budget and this Annual Report.

The Corporation's internal auditor has the responsibility for assessing the management systems and practices of the Corporation and its subsidiaries. AECL's auditors conduct an independent audit of the consolidated financial statements of the Corporation and report on their audit to the Minister of Natural Resources.

The Board of Directors' Audit Committee, composed of directors who are not employees of the Corporation or its subsidiaries, reviews and advises the Board on the consolidated financial statements, AECL's auditors' report thereto and the plans and reports related to special examinations, and oversees the activities of internal audit. The Audit Committee meets with management, the internal auditor and AECL's auditors on a regular basis.

Reid Morden
President and Chief Executive Officer

Raymond E. Grisold
Vice-President Finance, Treasurer and
Chief Financial Officer

AUDITORS' REPORT

TO THE MINISTER OF NATURAL RESOURCES

We have audited the consolidated balance sheet of Atomic Energy of Canada Limited as at March 31, 1997 and the consolidated statements of operations, deficit, contributed capital and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

There are significant costs associated with decommissioning the Corporation's facilities and remediating its sites, including costs of residual waste storage and disposal. Generally accepted accounting principles require that these costs be recognized in a rational and systematic manner over the estimated useful lives of the corresponding facilities. However, the Corporation expenses these costs as the activities take place and has not recorded a liability for them. Government funding of these costs is similarly recorded. Failure to record a liability for these costs is not in accordance with generally accepted accounting principles. The estimated net present value of this unrecorded liability, together with information on related assumptions and management plans, is disclosed in Note 11 to the financial statements.

In our opinion, except for the failure to record the liability for decommissioning and site remediation as described in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation and its wholly-owned subsidiaries.

Ernst & Young
Chartered Accountants

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 15, 1997

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash, advances and short-term investments (Note 4)	132,996	145,969
Segregated cash (Note 5)	24,410	
Accounts receivable (Note 6)	139,901	143,433
Inventory of supplies	11,708	11,192
	309,015	300,594
Heavy water inventory (Note 7)	631,127	583,393
Capital assets (Note 8)	100,395	109,147
	1,040,537	993,134

LIABILITIES	1997	1996
Current		
Accounts payable and accrued liabilities	287,011	207,083
Current portion of long-term debt (Note 9)	4,644	3,981
	291,655	211,064
Restructuring and other provisions	87,017	96,497
Deferred decommissioning funding (Note 2 (f))	13,284	
Deferred revenue	45,481	51,196
Deferred capital funding (Note 2 (f))	81,496	102,129
Accrued employee termination benefits	52,492	52,773
Long-term debt (Note 9)	11,027	15,319
	582,452	528,978
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—75,000 common shares		
Issued—54,000 common shares	15,000	15,000
Contributed capital (Note 10)	585,951	607,410
Deficit	(142,866)	(158,254)
	458,085	464,156
	1,040,537	993,134

See accompanying notes to the financial statements.

Approved by the Board:

MARY C. ARNOLD
Director

REID MORDEN
Director

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Commercial operations		
Revenue	361,775	312,318
Expenses		
Cost of sales	298,035	246,351
Marketing and administration	18,675	28,713
Product development	30,078	26,604
	346,788	301,668
Operating profit from commercial operations	14,987	10,650
Research		
Expenses	256,301	254,438
Less		
Parliamentary appropriations (Note 3)	167,415	156,752
Cost recovery from third parties	72,793	80,908
Amortization of deferred capital funding (Note 2 (f))	11,850	12,739
Net research expense	(4,243)	(4,039)
Decommissioning activities (Note 11)		
Expenses	10,976	10,283
Less		
Parliamentary appropriations		10,283
Decommissioning funding (Note 2 (f))	8,175	
Asset sales & other	2,801	
Net decommissioning expense		
Interest income & other	4,644	8,415
Income from operations	15,388	15,026
Restructuring costs		(24,948)
Net income (loss)	15,388	(9,922)

Amortization disclosure (Note 8).
See accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Balance at beginning of the year	607,410	607,410
Transfer to deferred decommissioning funding (Note 2 (f))	(21,459)	
Balance at end of the year	585,951	607,410

See accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Balance at beginning of the year	(158,254)	(148,332)
Net income (loss)	15,388	(9,922)
Balance at end of the year	(142,866)	(158,254)

See accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Operating activities		
Net income (loss)	15,388	(9,922)
Adjustment for non-cash items		
Amortization of capital assets	14,388	14,957
Amortization of deferred capital funding	(11,850)	(12,739)
Amortization of deferred decommissioning funding	(8,175)	
Restructuring and other costs		27,522
	9,751	19,818
Change in non-cash working capital amounts		
Accounts receivable	3,532	(11,868)
Inventory of supplies	(516)	(1,183)
Accounts payable and accrued liabilities	68,802	13,143
Heavy water inventory	(47,734)	1,013
Restructuring and other provisions	(9,480)	(16,898)
Accrued employee termination benefits	(281)	4,091
Deferred revenue	(5,715)	2,058
	8,608	(9,644)
Cash from operating activities	18,359	10,174
Investing activities		
Proceeds on disposal of capital assets	2,635	1,297
Acquisition of capital assets	(17,054)	(10,366)
Cash used in investing activities	(14,419)	(9,069)
Financing activities		
Segregated cash	(24,410)	
Parliamentary appropriations received for Program Review activites including interest	11,126	
Parliamentary appropriations applied for capital asset expenditures		7,559
Reduction in long-term debt	(3,629)	(3,676)
Cash from (used in) financing activities	(16,913)	3,883
Cash, advances and short-term investments		
Change	(12,973)	4,988
Balance at beginning of the year	145,969	140,981
Balance at end of the year	132,996	145,969

See accompanying notes to the financial statements.

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997

1. The Corporation

Atomic Energy of Canada Limited (AECL) was incorporated in 1952 under the provisions of the *Canada Corporations Act* (and continued in 1977 under the provisions of the *Canada Business Corporations Act*) pursuant to the authority and powers of the Minister of Natural Resources under the *Atomic Energy Control Act*.

The Corporation is a Schedule III Part I Crown corporation under the *Financial Administration Act* and an agent of Her Majesty the Queen in right of Canada. The Corporation is exempt from income taxes in Canada.

These financial statements include the accounts of the Corporation's wholly-owned subsidiaries, AECL Technologies Inc., incorporated in the state of Delaware, U.S.A. in 1988, and AECL Technologies B.V., incorporated in the Netherlands in 1995.

2. Significant accounting policies

(a) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the daily rate at the time of transaction.

The Corporation enters into foreign exchange forwards to reduce the risk associated with the purchase and sale of goods in foreign currencies. Forward contracts in effect as at March 31, 1997 amount to $68.1 million (1996—$70.7 million). The majority of these contracts are to sell $US at rates which do not vary significantly from market and which will expire upon completion of the underlying transaction. Contract expiry dates range from one month to three years. All forwards are offset by contracts with third parties for payment in foreign currencies. Realized gains and losses are recorded in other income. The carrying value approximates fair value.

(b) Inventories

Heavy water is valued at the lower of average cost and net realizable value. Supplies are valued at cost.

(c) Capital assets

Capital assets are recorded at cost and this cost is amortized on a straight-line basis over the estimated useful life of the asset as follows:

Machinery and equipment	3 to 20 years
Buildings, reactors and land services	20 to 40 years

(d) Decommissioning activities

As further explained in Note 11, costs of decommissioning nuclear facilities and site remediation are expensed as the activities take place.

(e) Long-term contracts

Revenue and costs on long-term contracts are accounted for by the percentage of completion method, applied on a conservative basis to recognize the absence of certainty on these contracts. Full provision is made for all estimated losses to completion of contracts in progress.

(f) Parliamentary appropriations

The Government of Canada, through parliamentary appropriations, funds certain operations of the Corporation as outlined in Notes 3, 10 and 11. Except as noted below, parliamentary appropriations are recorded separately in the consolidated statement of operations as used.

Parliamentary appropriations used to acquire capital assets in prior years have been recorded as deferred capital funding on the consolidated balance sheet and are amortized on the same basis as the related capital assets. Effective in the current year, the Corporation finances capital acquisitions from its overall operations.

In the past, funding for decommissioning activities was received from the government as parliamentary appropriations. Effective in the current year, and pursuant to the 10-year arrangement for funding decommissioning activities, the Corporation retains net proceeds from the sale or lease of certain heavy water and these proceeds are recorded in the statement of operations as deferred funding for decommissioning as expenditures are made.

(g) Cost recoveries from third parties

AECL and the Canadian nuclear utilities (Ontario Hydro, New Brunswick Power and Hydro Québec) have a common interest in the safe, efficient and economical use of power utilizing CANDU technology. Research programs aligned with these objectives are undertaken by AECL and cost-shared with the utilities under funding arrangements that continue until the end of fiscal 2004. Funding under these arrangements is included in cost recovery from third parties and is recognized as the related expenses are incurred.

(h) Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the Plan are limited to contributions made by both the employees and the Corporation on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997—*Continued*

(i) Employee termination benefits

Employees are entitled to specific termination benefits as provided for under collective agreements and conditions of employment. The liability for these benefits is charged to income as benefits accrue to the employees. The accumulated liability is based on an actuarial determination and reviewed on a periodic basis.

(j) Workers' compensation

In accordance with the *Government Employees' Compensation Act*, the Corporation reimburses Human Resources Development Canada for current payments for workers' compensation claims and pensions billed by the provincial compensation boards. The benefit payments are recognized as an expense in the year paid to the provincial compensation boards.

3. Parliamentary appropriations

Parliamentary appropriations and their use by the Corporation are as follows:

	1997	1996
	(in thousands of dollars)	
Research		
Operating costs	167,415	156,752
Capital asset expenditures		7,559
	167,415	164,311
Decommissioning activities (Note 11)		10,283
Program Review (Note 14)	30,039	
	197,454	174,594

4. Cash, advances and short-term investments

Bank deposits are maintained at levels required to meet daily operating needs. Any surplus deposits are invested in the short-term money market. The investing strategy is based on a conservative risk assessment. All instruments are rated R1 Low or higher by the Dominion Bond Rating Service and the portfolio is diversified by limiting investments in any one issuer and balancing the fund amongst Canadian federal and provincial government guaranteed, financial and commercial paper issuers. The terms of instruments within the portfolio range from one day to one year. The carrying value approximates fair value.

5. Segregated cash

Included in segregated cash are the unused portion of net heavy water and third party proceeds for future decommissioning activities (see Note 11), as well as funds received from the government to assist in the funding of certain future costs associated with Program Review actions.

6. Accounts receivable

Accounts receivable represent normal trade instruments and the carrying value thereof approximates fair value. No substantial amounts are with any single customer or represent a significant foreign exchange exposure.

7. Heavy water inventory

Heavy water inventory includes amounts leased to customers with expiry dates occurring in 1999 and 2000, as well as 1,100 megagrams to be loaned to the Sudbury Neutrino Observatory Institute during the 1998 fiscal year, the majority of which is to be returned to the Corporation in 2000. In addition, AECL has contractual commitments to sell heavy water in support of ongoing reactor projects.

In 1997, the Corporation entered into a four-year contractual agreement with Ontario Hydro to purchase heavy water produced at Ontario Hydro's Bruce Heavy Water Plant. This supply will augment the Corporation's inventory in support of its projected sales plan.

8. Capital assets

	1997		1996	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	(in thousands of dollars)			
Commercial operations				
Land and improvements	963	245	963	245
Buildings	9,961	7,731	8,833	7,571
Machinery and equipment	10,617	7,414	8,543	6,852
	21,541	15,390	18,339	14,668
Research				
Land and improvements	15,699	11,516	15,121	11,202
Buildings	71,078	43,314	82,951	46,648
Reactors and equipment	232,681	184,637	252,320	202,253
Construction in progress	14,253		15,187	
	333,711	239,467	365,579	260,103
	355,252	254,857	383,918	274,771
Net book value		100,395		109,147

Amortization of capital assets for the year ended March 31, 1997 amounted to $14.4 million (1996—$15.0 million).

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997—*Continued*

9. Long-term debt

	1997	1996
	(in thousands of dollars)	
Loans from Government of Canada		
To finance leased heavy water and other assets, maturing through 2008 at interest rates varying from 3.525% to 8.45%	12,090	13,491
Loans from third parties		
To finance the purchase of the Glace Bay heavy water plant, maturing through 1998 at an imputed interest rate of 8.875%	3,581	5,809
	15,671	19,300
Current portion	4,644	3,981
	11,027	15,319

Repayments of loan principal amounts required over succeeding years are as follows (millions of dollars): 1998—$4.6; 1999—$1.2; 2000—$1.2; 2001—$1.0; 2002—$1.0 and subsequent to 2002—$6.7.

10. Contributed capital

Included in contributed capital is approximately $392 million (1996—$415 million) related to parliamentary appropriations received for the production of heavy water inventory. Up to and including 1996, the Corporation was required to repay the government, by way of a dividend, the net proceeds from the sale of government funded heavy water. A recent Decision of the Treasury Board has directed the Corporation to hold the proceeds received over the next 10 years from the sale or lease of government funded heavy water in a segregated fund for use in decommissioning activities. Commencing in 1997, as government funded heavy water is sold or leased, the net proceeds are transferred from contributed capital to deferred decommissioning funding which is used to fund ongoing decommissioning activities. The Corporation continues to treat this transaction as a reversal of the originally established contributed capital. Subsequent to 2006, unless renewed, the prior arrangement will apply where net proceeds would be repayable to the government and decommissioning activities would be funded through parliamentary appropriations. Consequently, the balance of the contributed capital remaining related to the parliamentary appropriations received for heavy water production remains in contributed capital.

11. Decommissioning activities

When prototype reactors, heavy water plants, nuclear research, development and other facilities have no further commercial or research value to the Corporation, they are retired and subsequently decommissioned in accordance with Atomic Energy Control Board regulations. Due to the variety of facilities, the decommissioning process may differ in each case. In some situations, decommissioning activities are carried out in stages with intervals of several decades between them to allow radioactivity to decay before moving on to the next stage. Activities include dismantling, decontamination, residual waste storage and disposal.

The Corporation has not recorded the liability for these future costs because, historically, the government has funded decommissioning activities on an annual basis through parliamentary appropriations. Starting this year, and for the next 10 years, the government has requested the Corporation to use the proceeds from government funded heavy water, which was previously returned to the government, to fund decommissioning activities (see Note 10 on contributed capital). The government is currently reviewing its overall environmental policy, which will include decommissioning activities of AECL's facilities and waste storage on AECL property. The Corporation expects that the government will continue to finance these activities and has continued its policy of expensing decommissioning costs as they take place.

The estimated future decommissioning and site remediation costs require that judgments be made about the regulatory environment, health and safety considerations, the desired end-state, technology to be employed and, in some cases, research and development for these activities that extend well into the future. The Corporation has prepared a broad plan of activities to be carried out over the next 100 years. This timeframe recognizes that its major nuclear facilities at Chalk River will remain a managed and active site for a minimum of 75 years into the future. The current estimated discounted cost of these activities, based on management's best estimate, is approximately $400 million. A conservative discount rate has been used reflecting long-term borrowing rates. Over the next 10 years, the Corporation expects to spend $200 million in agreement with the government under its current funding arrangements.

12. Related party transactions

In addition to the transactions disclosed elsewhere in these financial statements, the Corporation had the following transactions with the Government of Canada:

	1997	1996
	(in thousands of dollars)	
Repayment of loans and interest	1,994	2,285
Payments to the Public Service Superannuation Plan	13,122	12,546

In the normal course of business, the Corporation also enters into various transactions with the Government of Canada, its agencies and other Crown corporations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997—*Concluded*

13. Subsequent event

The legal claim made by MDS Health Group Limited and its subsidiary, Nordion International Inc., which named the Corporation together with Canada Development Investment Corporation and the Attorney General of Canada, has been withdrawn. A new arrangement has been negotiated between AECL, Nordion and the federal government for the continued supply of isotopes.

14. Restructuring costs

On March 6, 1996, the federal government tabled a budget which, while reaffirming its support for AECL's leadership in the Canadian nuclear industry and for the CANDU business, will result in a reduction to the Corporation's annual parliamentary appropriations from $174 million in 1996 to $132 million in 1998 and to $100 million in 1999. The Corporation has eliminated or reduced expenditures on research programs which do not directly contribute to the CANDU business, and will manage its infrastructure and support costs at a level in line with the program reductions.

Implementation of the program reductions and related actions began this year and will continue for another one to two years. The charge to earnings for the estimated cost of undertaking the actions related to Program Review has made in 1996 and the unused portion continues to be held for ongoing actions. The reserve is judged to be adequate for known actions.

The government is currently in the process of negotiating for the commercialization of the Corporation's Whiteshell Laboratories. At this time, neither the costs that may arise for the transfer of the laboratory to the private sector nor the impact (if any) on the Corporation can be reasonably determined. Consequently, no provision has been made in the financial statements.

15. Sales agents' remuneration

In 1997, remuneration and expenses paid to the following sales agents and representatives aggregated $3.9 million (1996—$2.0 million): Marubeni Corporation, Japan; Sumta Sanayi Urunleri Musavirlik Ve Ticaret A.S., Turkey; Samchang Corporation, Korea; and PII-PED International Inc., U.S.A. and Korea; and Oxford Health Care Ltd., U.K..

16. Comparative figures

Certain reclassifications have been made to the 1996 comparative figures to conform with the current year's presentation.

BANK OF CANADA

AUDITORS' REPORT

TO THE MINISTER OF FINANCE, registered shareholder of the Bank of Canada

We have audited the statement of assets and liabilities of the Bank of Canada as at December 31, 1996 and the statement of revenue and expense for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with the preceding year except for the change in the method of accounting for pension and termination benefits as described in Note 2 (h) and (i).

Caron Bélanger Ernst & Young
Chartered Accountants

Coopers & Lybrand
Chartered Accountants

Ottawa, Canada
January 24, 1997

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1996
(in millions of dollars)

ASSETS	1996	1995
Deposits payable in foreign currencies		
US dollars	235.0	328.7
Other currencies	4.0	219.8
	239.0	548.5
Advances to members of the Canadian Payments Association (Note 8)	553.8	545.4
Investments—at amortized values		
Treasury bills of Canada	17,416.5	18,072.0
Other securities issued or guaranteed by Canada maturing within three years	2,328.3	1,523.9
Other securities issued or guaranteed by Canada not maturing within three years	5,635.2	3,767.9
Other investments	3,942.4	5,293.0
	29,322.4	28,656.8
Bank premises (Note 4)	198.2	225.0
Other assets (Note 8)	271.0	224.9
	30,584.4	30,200.6

LIABILITIES	1996	1995
Capital paid up (Note 5)	5.0	5.0
Rest fund (Note 6)	25.0	25.0
Notes in circulation	29,109.1	28,777.7
Deposits		
Government of Canada	11.0	17.6
Chartered banks	945.5	478.8
Other members of the Canadian Payments Association	14.6	38.9
Other deposits	347.8	629.2
	1,318.9	1,164.5
Liabilities payable in foreign currencies		
Government of Canada	91.0	185.4
Other liabilities	35.4	43.0
	30,584.4	30,200.6

See accompanying notes to the financial statements.

G. G. THIESSEN
Governor

F. J. MAHONEY
Chief Accountant

BANK OF CANADA—*Continued*

STATEMENT OF REVENUE AND EXPENSE
YEAR ENDED DECEMBER 31, 1996
(in millions of dollars)

	1996	1995
Revenue		
Revenue from investments, net of interest paid on deposits of $9.8 million ($23.3 million in 1995)	1,648.8	2,037.0
Expense by function (Notes 1 and 3)		
Monetary policy	35.0	33.0
Bank notes	69.6	80.0
Central banking services	22.8	20.8
Debt-management services	51.6	54.0
	179.0	187.8
Other expenses	34.7	33.0
	213.7	220.8
Net revenue paid to Receiver General for Canada	1,435.1	1,816.2

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996

1. Bank functions

The Bank of Canada's primary responsibilities are set out in the *Bank of Canada Act* and can be grouped into four broad functions. Net operating expenses in the Statement of revenue and expense are reported on the basis of these four corporate functions, which are described below. Net operating expenses by major objects of expenditure are presented in Note 3.

Monetary policy

The Bank's most important responsibility is monetary policy. Monetary policy is concerned with managing the rate of monetary expansion in a way that is consistent with preserving the value of money.

Central banking services

The Bank carries out a variety of activities that support and oversee Canada's systems for clearing and settling payments and other financial transactions. The Bank also provides a number of central banking services to the federal government, financial institutions, and the general public.

Bank notes

The Bank is responsible for issuing bank notes in Canada. This responsibility involves note design (including anti-counterfeiting features) as well as the printing and distribution of bank notes and their eventual replacement.

Debt-management services

As fiscal agent, the Bank advises the federal government on matters relating to the public debt and is responsible for issuing debt, maintaining bondholder records, and making payments on behalf of the government for interest and debt redemption.

2. Significant accounting policies

The financial statements of the Bank are in accordance with generally accepted accounting principles and conform to the disclosure and accounting requirements of the *Bank of Canada Act* and the Bank's by-laws. The significant accounting policies of the Bank are:

(a) Revenues and expenses

Revenues and expenses are accounted for on the accrual basis except for interest on advances to a bank ordered to be wound up where interest is recorded as received.

(b) Translation of foreign currencies

Assets and liabilities in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the year-end. Foreign currency assets and liabilities covered by forward contracts are converted to Canadian dollars at the contracted rates. Gains and losses from translation of, and transactions in, foreign currencies are included in revenue.

(c) Advances

Advances to members of the Canadian Payments Association are fully collateralized, liquidity loans for which the Bank charges the Bank Rate. These loans are generally overnight in duration.

(d) Investments

Investments consist mainly of Government of Canada treasury bills and bonds, which are recorded at cost adjusted for amortization of purchase discounts and premiums. The amortization as well as gains and losses on disposition are included in revenue. This category also includes other investments which are held under short-term foreign currency swap arrangements with the Exchange Fund Account of the Government of Canada as described in Note 7 (b).

The Bank typically holds its investments in Government of Canada treasury bills and bonds until maturity. The amortized book values of these investments approximate the par values. At the year-end, the average yield on the Bank's holdings of treasury bills was 3.6%, while the average yield for bonds maturing within three years was 7.5% and for those maturing in over three years was 9.1%.

(e) Bank premises

Bank premises, consisting of land, buildings and equipment, are recorded at cost less accumulated depreciation. As well, computer software costs exceeding $2.0 million are capitalized and amortized over the estimated useful life of the software, ranging from 3 to 5 years. Depreciation is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below.

Buildings	25 to 40 years
Computer equipment/software	3 to 7 years
Other equipment	5 to 15 years

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

A full year of depreciation is charged against assets in the year of acquisition, except for projects in progress which are depreciated from the point of substantial completion. No depreciation is taken on assets in the year of disposal.

(f) Notes in circulation

This liability represents the face value of all notes issued by, and not returned to, the Bank.

(g) Deposits

The liabilities within this category are Canadian dollar demand deposits that typically do not earn interest.

(h) Pension plan

The Bank sponsors a defined-benefit pension plan for its employees which is registered under the *Pension Benefits Standards Act*. The plan provides pension benefits based on length of service and rates of pay.

During the year, the Bank adopted the accrual method for determining pension benefit expense and this change has been applied prospectively from January 1st, 1996.

Actuarial valuations of the pension plan are made periodically by an independent actuary using the projected benefit method prorated on service. Market-related values are used to value pension plan assets.

Based on the latest actuarial valuation as at December 31, 1995, the estimated present value of the accrued pension benefits as at December 31, 1996 was $418.8 million, and the estimated market-related value of the pension plan assets was $468.9 million.

Pension expense for 1996 of $7.0 million ($6.0 million in 1995) includes the actuarially computed cost of pension benefits in respect of current year service and the amortization of past service costs and experience gains and losses. Amortization is calculated on a straight-line basis over the average remaining service life of the plan members, currently 12 years.

(i) Termination benefits

During the year, the Bank adopted the accrual method for determining the expense related to termination benefits. This change has been applied prospectively from January 1st, 1996 and, accordingly, has increased termination benefits expense for the year ended December 31, 1996 by $3.7 million when compared with what termination benefits expense for 1996 would have been under the pay-as-you-go approach.

(j) Insurance

The Bank does not insure against direct risks of loss to the Bank, except for potential liabilities to third parties and where there are legal or contractual obligations to carry insurance. Any costs arising from these risks are recorded in the accounts at the time they can be reasonably estimated.

3. Expense by object of expenditure

	1996	1995
	(in millions of dollars)	
Salaries	71.3	77.6
Other staff expenses	23.4	20.4
Bank note costs	16.8	22.6
Premises maintenance—		
Net of rental income	28.0	31.3
Services and supplies	16.1	15.5
Depreciation	23.4	20.4
	179.0	187.8
Other expenses		
Settlement cost (Note 8)	22.3	
Workforce adjustment (Note 9)	5.0	33.0
Miscellaneous	7.4	
Total	213.7	220.8

Wages and benefits of Bank staff engaged in premises maintenance are not included in the Salaries or Other staff expenses categories, but rather as part of Premises expenses.

Expenses are net of fees charged for a variety of services provided by the Bank ($3.4 million in 1996 and $3.0 million in 1995).

Miscellaneous expenses of $7.4 million comprise two items. The Bank sold its St. Andrew's Tower in Ottawa for $16 million, which represented a loss of $4.4 million on the net book value of the building. Secondly, as part of its move to accrual accounting for staff benefits, the Bank incurred a one-time cost of $3 million to recognize the past service liability for unused vacation entitlements earned prior to 1996.

BANK OF CANADA—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

4. Bank premises

	1996			1995		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	(in millions of dollars)					
Land and buildings	224.0	97.6	126.4	253.4	101.6	151.8
Computer equipment/software	39.1	26.3	12.8	50.6	42.1	8.5
Other equipment	138.7	85.7	53.0	144.2	83.6	60.6
	401.8	209.6	192.2	448.2	227.3	220.9
Projects in progress	6.0		6.0	4.1		4.1
	407.8	209.6	198.2	452.3	227.3	225.0

5. Capital paid up

The authorized capital of the Bank is $5.0 million divided into 100,000 shares with a par value of $50 each. The shares are fully paid and, in accordance with the *Bank of Canada Act*, have been issued to the Minister of Finance, who is holding them on behalf of the Government of Canada.

6. Rest fund

The rest fund was established by the *Bank of Canada Act* and represents the general reserve of the Bank. In accordance with the Act, the rest fund was accumulated out of net revenue until it reached the stipulated maximum amount of $25.0 million in 1955. Subsequently, all net revenues have been paid to the Receiver General for Canada.

7. Commitments

(a) Bank premises

As at December 31, 1996, outstanding commitments under contracts for new computer systems, building upgrades and equipment purchases totalled $9.1 million ($12.2 million at the end of 1995). These contracts call for payments over the next year.

(b) Foreign currency contracts

In the ordinary course of business, the Bank enters into commitments involving the purchase and sale of foreign currencies. In particular, the Bank enters into short-term foreign currency swap arrangements with the Exchange Fund Account (EFA) of the Government of Canada as part of its cash management operations within the Canadian banking system. These transactions, which are made with the concurrence of the Minister of Finance under a standing authority, involve the temporary acquisition by the Bank of foreign currency assets from the EFA. These assets are paid for in Canadian dollars at the prevailing exchange rate with a commitment to reverse the transaction at the same rate of exchange at a future date. The fair values of these assets are not materially different from their book values. At the year-end, the average yield for these investments was 6.1%.

As well, the Bank of Canada is a participant in two foreign currency swap facilities with foreign central banks. The first, amounting to US $2 billion, is with the US Federal Reserve. The second, amounting to Can. $1 billion, is with the Banco de Mexico.

BANK OF CANADA—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Concluded*

A summary of outstanding commitments follows.

	1996	1995
	(in millions of dollars)	
Foreign currency contracts—Purchases.	75.4	64.2
—Sales	4,080.5	5,646.2

As at December 31, 1996, outstanding foreign currency contracts included sale commitments of $4,005.1 million ($5,365.4 million at the end of 1995) under swap arrangements with the EFA, nil under the swap facility with the Banco de Mexico, ($216.7 million at the end of 1995), and nil under the swap facility with the US Federal Reserve (nil at the end of 1995).

8. Legal matters

On September 3, 1985 and January 20, 1986 respectively, winding up orders were issued for the Canadian Commercial Bank and the Northland Bank. At those dates, the Bank of Canada had liquidity advances outstanding of $1.3 billion to the Canadian Commercial Bank and $0.5 billion to the Northland Bank. During the intervening years, the Bank has received interim distributions from the two banks in liquidation. At December 31, 1996, the residual balances of advances outstanding were $26.9 million to the Canadian Commercial Bank and $1 million to the Northland Bank (both amounts are unchanged from 1995). On the basis of the available information, it is the opinion of the Bank of Canada that it will be fully repaid from the proceeds of the liquidations.

The Bank of Canada's security for these advances includes the loan portfolios of those institutions. In the case of the Canadian Commercial Bank, the liquidator's conclusion that loans made form part of the Bank of Canada's security, in respect of the $1.3 billion of advances, has been challenged repeatedly in the courts regarding portions of the portfolio. If the challenges are successful, there could be some adjustment to amounts which have been recorded in income.

To forestall continuance of the court challenges, the Bank of Canada settled for a total of $22.3 million with three of the major unsecured creditors of the Canadian Commercial Bank (namely, the Canada Deposit Insurance Corporation, the Province of Alberta, and a consortium of six chartered banks) during 1996. Settlement should expedite the final liquidation of the Canadian Commercial Bank. As part of the settlements with these three creditors, the Bank also purchased the amounts remaining to be paid to them by the estate of the Canadian Commercial Bank for a total investment of $13.8 million, which is reported under Other assets on the Statement of assets and liabilities.

9. Workforce adjustment

In 1995, the Bank decided to eliminate approximately 500 staff positions and recorded $33 million in the accounts to cover the termination costs. This significant reduction in employment level resulted from extensive reviews of the Bank's activities and is being accomplished during 1996 and 1997 via early retirements, voluntary departures, and some layoffs. As at December 31, 1996, $27.6 million of the provision of $33 million had been paid.

Based on further reviews, the Bank now plans to eliminate approximately 100 additional staff positions. The termination costs are estimated to be $5 million and were recorded in the accounts in 1996.

All termination benefits are comparable to those offered by the federal government.

BUSINESS DEVELOPMENT BANK OF CANADA

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The financial statements of the Business Development Bank of Canada were prepared and presented by management in accordance with generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimation which have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

The Bank's independent auditors, Raymond, Chabot, Martin, Paré, General Partnership, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

François Beaudoin
President and Chief Executive Officer

Alan B. Marquis
Vice-President, Finance and
Chief Financial Officer

AUDITORS' REPORT

TO THE MINISTER OF INDUSTRY

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 1997, and the statements of income, changes in shareholder's equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 1997, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

Raymond, Chabot, Martin, Paré
General Partnership
Chartered Accountants

Montreal, Canada
May 23, 1997

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Cash and short-term investments (Note 3)	426,946	227,547
Securities (Note 4)	117,475	164,452
	544,421	391,999
Loans, net of allowance for credit losses (Notes 5 and 7)	3,386,356	3,111,361
Venture capital investments, net of allowance for losses (Notes 6 and 7)	41,444	31,836
	3,427,800	3,143,197
Capital assets, net of accumulated depreciation	19,033	15,109
Other assets (Note 8)	38,551	22,409
	57,584	37,518
Total assets	4,029,805	3,572,714

LIABILITIES AND SHAREHOLDER'S EQUITY	1997	1996
Accounts payable and accrued liabilities	30,316	30,357
Accrued interest on borrowings	77,090	43,764
	107,406	74,121
Borrowings (Note 9)		
Short-term notes	1,206,631	1,098,190
Long-term notes	2,164,339	1,946,965
	3,370,970	3,045,155
Other liabilities	83,835	83,110
SHAREHOLDER'S EQUITY		
Share capital (Note 10)	403,400	353,400
Retained earnings	64,194	16,928
	467,594	370,328
Total liabilities and shareholder's equity	4,029,805	3,572,714

The accompanying notes to financial statements are an integral part of this statement.

Approved by the Board:

PETER G. JOLLYMORE
Director

FRANÇOIS BEAUDOIN
Director

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Financial services		
Loans division		
Interest income	326,508	338,378
Interest expense (Note 11)	134,637	178,799
Net interest income	191,871	159,579
Provision for credit losses (Note 7)	39,041	23,128
Net interest income after provision for credit losses	152,830	136,451
Operating and administrative expenses (Note 12)	104,406	115,119
Income from Loans division	48,424	21,332
Venture capital division		
Investment income	16,385	19,097
Provision for losses on investments (Note 7)	2,393	4,898
Net investment income after provision for losses	13,992	14,199
Operating and administrative expenses (Note 12)	4,044	3,954
Income from Venture capital division	9,948	10,245
Income from financial services	58,372	31,577
Management services		
Revenue from activities	19,758	19,125
Operating and administrative expenses (Note 12)	34,410	33,227
Net operating and administrative expenses	14,652	14,102
Parliamentary appropriation (Note 13)	6,948	14,078
Loss from Management services	(7,704)	(24)
Net income	50,668	31,553

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Preferred shares (Note 10)		
Balance at beginning of year	50,000	
Issue of preferred shares	50,000	50,000
Balance at end of year	100,000	50,000
Common shares (Note 10)		
Balance at beginning of year	303,400	
Issued on conversion of paid-in capital		590,000
Shares cancelled and corresponding reduction in paid-in capital		(286,600)
Balance at end of year	303,400	303,400
Total share capital	403,400	353,400
Retained earnings (deficit)		
Balance at beginning of year	16,928	(301,225)
Net income	50,668	31,553
Elimination of deficit by reduction of capital (Note 10)		286,600
Dividend on preferred shares	(3,402)	
Balance at end of year	64,194	16,928
Total shareholder's equity	467,594	370,328

The accompanying notes to financial statements are an integral part of this statement.

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Cash flows from operating activities		
Net income	50,668	31,553
Items not requiring an outlay of cash		
Provision for credit losses and losses on venture capital investments	41,434	28,026
Depreciation of capital assets	4,434	3,440
Change in interest receivable on loans	(368)	(279)
Change in accrued interest on borrowings	33,326	(3,991)
Net change in other assets and other liabilities	(15,458)	42,939
	114,036	101,688
Cash flows used in investing activities		
Disbursements to borrowers and investees	(923,765)	(863,235)
Repayments by borrowers and investees	598,096	520,160
Net acquisition of capital assets	(8,358)	(12,540)
	(334,027)	(355,615)
Cash flows from financing activities		
Issue of long-term notes	897,408	1,011,863
Repayment of long-term notes	(680,034)	(434,674)
Net change in short-term notes	108,441	(254,871)
Net change in securities	46,977	(164,452)
Proceeds from issue of preferred shares	50,000	50,000
Dividend declared	(3,402)	
	419,390	207,866
Net increase (decrease) in cash and short-term investments	199,399	(46,061)
Beginning of year	227,547	273,608
End of year	426,946	227,547

The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997
(in thousands of dollars except as otherwise indicated)

1. Act of incorporation, objectives and operations of the Corporation

The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its new name by an Act of Parliament on July 13, 1995. The Bank is wholly-owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and management services tailored to meet the current needs of those businesses and to earn an appropriate return on investment capital, which is used to expand the loan portfolio.

The *Business Development Bank of Canada Act* expanded and extended the mandate of the Bank, enabling it to more effectively respond to the needs of Canada's small and medium-sized businesses. The Bank offers to Canadian companies services complementary to those of commercial financial institutions: financial services, venture capital, and management services (counselling and mentoring).

To finance these objectives, the Bank issues debt instruments which carry the full faith and credit of Canada. The *Business Development Bank of Canada Act* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements are summarized below.

Short-term investments and securities

Short-term investments and securities are stated at cost adjusted for amortization of premiums or discounts to maturity, or market value, if significantly lower. Interest revenue and gains or losses on disposals are netted against interest expense.

Loans and allowance for credit losses

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses.

The allowance for credit losses is maintained at a level considered adequate to absorb credit losses existing in the Bank's portfolio. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries.

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

A loan is considered to be impaired as a result of a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan is considered impaired, the carrying amount of the loan is reduced to its estimated realizable value by discounting the expected cash flows at the effective interest rate inherent in the loan, or if cash flows cannot be reasonably estimated, the fair value of any underlying security, net of expected realization costs, is used. The amount of initial impairment and any subsequent changes are recorded through the provision for credit losses as an adjustment to the specific allowance.

In addition to specific allowances against identified impaired loans, the Bank maintains a group allowance to cover impairment which is inherent in the loan portfolio and which is estimated based upon historical loss experience and prevailing economic conditions.

Venture capital investments and allowance for losses

Venture capital investments are recorded at cost net of allowance for losses. The allowance for losses on these investments is established by a management review of individual investments.

Revenue recognition

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of interest ceases.

Any interest payments on impaired loans are applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, as explained under Loans and allowance for credit losses, the increase in present value attributable to the passage of time is reported as interest income.

Dividends, interest and capital gains on venture capital investments are recorded as income when received.

Capital assets and depreciation

Capital assets are recorded at cost and depreciated over their maximum estimated useful lives, using the straight-line method as follows:

Computer equipment	3 years
Furniture and fixtures	5 years
Leasehold improvements	over the term of the lease, maximum 15 years

Premiums, discounts and debt-issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and charged to interest expense.

Translation of foreign currencies

Notes payable in foreign currencies and interest thereon, are fully hedged by foreign exchange forward contracts, foreign currency option contracts or currency swap contracts and are translated into Canadian dollars at the rates provided therein. The difference between the principal amount payable at maturity and the proceeds of the issue is considered to be an element of financing costs and is therefore amortized to interest expense over the life of the obligation on a straight-line basis. The unamortized portion of these amounts is included in "Other assets".

Derivative financial instruments

The Bank enters into derivative financial instruments to manage the interest rate and foreign exchange exposures arising from on-balance sheet positions. These financial instruments are used as hedges for the sole purpose of matching assets and liabilities. These derivatives are accounted for on an accrual basis and recorded as adjustments to interest expense related to the hedged position.

Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

Pension plan

The Bank maintains a contributory, defined benefit pension plan for eligible employees. Periodic valuations are performed by independent actuaries to determine the present value of the accrued pension benefits. The costs of the plan, which are included with salaries and staff benefits, are comprised of the cost of pension benefits in respect of current service, and the amortization over the expected average remaining service life of the employees of experience gains or losses in respect of the plan, and any adjustments arising from changes to the plan or the plan assumptions.

Post-retirement benefits other than pensions

Post-retirement benefits, other than pensions, consisting of life insurance and health care benefits for eligible retirees, are accrued annually based on actuarial valuations and are recorded in "Other liabilities".

Post-employment benefits other than pensions

Employees are eligible for specified post-employment benefits which are based on salary levels in effect at the time of departure, and are accrued annually based on actuarial valuations and are recorded in "Other liabilities".

Recently issued accounting standard

The Bank has adopted the requirements issued by the Canadian Institute of Chartered Accountants in the handbook section 3860, "Financial instruments - Disclosure and presentation", for the year ended March 31, 1997, which prescribes requirements for disclosure and presentation of recognized and unrecognized financial instruments. These requirements have been applied retroactively and have no impact on the Statement of income.

3. Cash and short-term investments

Cash and short-term investments comprise bank account balances, net of cheques outstanding, and short-term bank deposits for terms less than 90 days.

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

4. Securities

	Term to maturity				
	Within 1 year	1 to 3 years	3 to 5 years	1997 Total	1996 Total
Securities issued or guaranteed by:					
Canada					
Carrying value	14,699	10,280	17,057	42,036	42,944
Yield (%)	5.93	6.05	6.72	6.28	6.52
Fair value	14,747	10,479	17,565	42,791	42,532
Provinces					
Carrying value	38,660	26,754		65,414	95,425
Yield (%)	6.77	4.65		5.90	7.16
Fair value	39,212	28,709		67,921	94,529
Other					
Carrying value	5,024	5,001		10,025	26,083
Yield (%)	7.36	7.60		7.48	7.43
Fair value	5,113	5,172		10,285	26,307
Total					
Carrying value	58,383	42,035	17,057	117,475	164,452
Yield (%)	6.61	5.34	6.72	6.17	7.04
Fair value	59,072	44,360	17,565	120,997	163,368
Swap contracts					
Notional amount	53,132	45,274	16,940	115,346	143,927

All securities held as at March 31 were issued in Canada at fixed rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Market risk relating to the above securities is hedged by interest rate swaps.

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

5. Loans

The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	1997		1996	
	$	%	$	%
Performing-floating	1,648,756	7.39	1,376,563	9.29
Performing-fixed				
Under one year	634,771	9.22	546,900	10.31
1 to 2 years	376,748	9.71	387,642	10.25
2 to 3 years	197,546	10.07	335,547	10.00
3 to 4 years	264,325	10.33	138,640	10.76
4 to 5 years	163,947	9.89	235,351	10.53
Over 5 years	92,617	10.11	71,250	11.13
Performing	3,378,710		3,091,893	
Impaired	232,123		237,433	
Total loans	3,610,833		3,329,326	
Allowance for credit losses				
Group/performing	(135,754)		(134,117)	
Impaired	(88,723)		(83,848)	
	(224,477)		(217,965)	
Loans, net of allowance for credit losses	3,386,356		3,111,361	

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The Bank believes it does not have any significant concentrations in any individual or group of clients.

Geographic distribution	1997		1996	
	$	%	$	%
Newfoundland	109,130	3.0	96,347	2.9
Prince Edward Island	30,818	0.9	26,890	0.8
Nova Scotia	82,820	2.3	74,967	2.3
New Brunswick	130,772	3.6	123,141	3.7
Quebec	1,343,169	37.2	1,213,719	36.4
Ontario	884,281	24.5	778,189	23.3
Manitoba	86,468	2.4	85,520	2.6
Saskatchewan	88,323	2.5	79,712	2.4
Alberta	224,420	6.2	209,378	6.3
British Columbia	571,047	15.8	583,462	17.5
Yukon	29,409	0.8	28,856	0.9
Northwest Territories	30,176	0.8	29,145	0.9
Total loans outstanding	3,610,833	100.0	3,329,326	100.0

6. Venture capital investments

The Bank maintains a portfolio of venture capital investments which is focused on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The Bank believes it does not have any significant concentrations in any individual industry sector or client.

Industry sector	1997	1996
Computer	13,569	10,122
Communications	2,270	2,020
Electronics	7,643	6,982
Biotechnology/ Medical/Health	10,415	4,075
Industrial	5,061	4,048
Consumer-related	3,489	4,039
Other	12,489	13,177
	54,936	44,463
Allowance for losses on investments	(13,492)	(12,627)
Venture capital investments, net of allowance for losses on investments	41,444	31,836

Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investments yields vary from year to year due to dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

	1997	1996
Common shares	31,907	27,108
Preferred shares	12,718	8,102
Debentures	10,311	9,253
	54,936	44,463
Allowance for losses on investments	(13,492)	(12,627)
Venture capital investments, net of allowance for losses on investments	41,444	31,836

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

7. Allowance for credit losses and losses on venture capital investments

The following table summarizes the changes in the allowance for credit losses and losses on venture capital investments as at March 31.

	1997			1996		
	Loans	Venture capital investments	Total	Loans	Venture capital investments	Total
Balance at beginning of year	217,965	12,627	230,592	223,551	9,220	232,771
Write-offs	(34,783)	(1,529)	(36,312)	(30,984)	(1,504)	(32,488)
Recoveries	2,254	1	2,255	2,270	13	2,283
	185,436	11,099	196,535	194,837	7,729	202,566
Provision for credit losses and losses on venture capital investments	39,041	2,393	41,434	23,128	4,898	28,026
Balance at end of year	224,477	13,492	237,969	217,965	12,627	230,592

8. Other assets

	1997	1996
Accrued interest receivable on securities and swap contracts	28,607	12,477
Unamortized debt issue expenses on long-term notes	2,048	1,750
Other	7,896	8,182
	38,551	22,409

9. Borrowings

The Bank issues debt instruments in world capital markets to fund its loan portfolio. The table below shows Canadian dollar notes and foreign currency notes, fully hedged and converted into Canadian dollars.

Maturity date	Effective rate	Currencies	Nominal amount	1997	1996
	%			$	$
Short-term notes					
1997	4.95-5.58	Swiss francs	49,000		
		Deutsche marks	265,000		
		US dollars	237,000		
		CDN dollars	456,094		
					1,098,190
1998	2.51-4.53	Swiss francs	75,000		
		Deutsche marks	64,500		
		US dollars	292,300		
		GB pounds	10,000		
		HK dollars	25,000		
		Thai Baht	40,000		
		CDN dollars	655,574		
				1,206,631	
Total short-term notes				1,206,631	1,098,190

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

9. Borrowings—*Continued*

Maturity date	Nominal rate	Effective rate *	Currency	Principal amount	1997	1996
	%	%		$	$	$
Long-term notes						
Within a year						
1997		4.63-8.42	Yen	22,920,000		
			US dollars	71,375		
			NL Guilders	25,000		
			CDN dollars	273,500		
						662,741
1998		2.77-6.00	US dollars	182,673		
			CDN dollars	420,000		
					669,036	489,058
Longer than a year						
May 15,1998	Zero coupon	4.92				5,000
June 19,1998	7.45	2.83 (1)			16,500	
June 30,1998	4.15	3.11	Yen	1,690,000	20,517	20,517
July 25, 1998	7.00	2.90 (2)			26,000	
July 29, 1998	6.00	9.27 (3)	Yen	1,100,023	18,717	26,905
August 27, 1998	4.50	2.86 (4)			140,000	
October 6, 1998	7.00	7.00			125,000	125,000
October 15, 1998	Zero coupon	2.79 (5)	US dollars	35,000	46,830	46,830
November 6,1998	Zero coupon	2.80 (6)			11,000	
November 25, 1998	8.78	1.57			50,000	50,000
March 5,1999	Zero coupon	2.78 (7)	US dollars	10,000	13,680	
April 8, 1999	Zero coupon	2.83 (6)			10,000	
May 21,1999	6.38	6.83	US dollars	100,000	136,650	
July 19,1999	6.65	5.02 (8)			5,000	
March 16,2000	Zero coupon	2.79 (6)			25,000	
September 25, 2000	7.43	6.77			75,000	75,000
November 24,2000	6.89	2.90 (9)	US dollars	15,435	21,809	25,914
November 6,2001	13.99	3.61	US dollars	105,000	143,600	
June 24, 2002	Zero coupon	3.03 (10)			16,000	
July 8, 2003	Zero coupon	2.87 (6)			64,000	
June 27, 2005	8.00	2.98 (11)			20,000	20,000
August 15,2005	Zero coupon	2.79 (12)			25,000	
October 18,2005	8.52	3.04 (13)			67,000	67,000
October 18,2005	8.33	4.63 (14)			23,000	23,000
November 2, 2005	6.75	4.77 (14)			25,000	25,000
December 12, 2005	7.73	4.74 (15)			20,000	20,000
December 12, 2005	7.76	2.99 (15)			58,000	58,000
January 5, 2006	8.26	3.71 (16)			115,000	115,000
March 1, 2006	7.55	5.53 (17)			60,000	60,000
April 19, 2006	8.13	6.20 (18)			25,000	
December 2, 2006	6.40	2.88			35,000	
March 18, 2008	8.35	2.90 (19)			32,000	32,000
June 17, 2008	7.10	2.79 (20)			25,000	
Total long-term notes					2,164,339	1,946,965
Current portion of long-term notes with maturity date longer than a year					13,764	12,293

* The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 15.

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

(1) Interest is payable annually. BDC may, at its option, on the initial maturity date on each extended maturity date thereafter on which the Note is outstanding, extend the maturity date by one year to the next extended maturity date at predetermined rates up to June 19, 2006.

(2) Interest is payable annually. BDC may, at its option, on the initial maturity date and on each extended maturity date thereafter on which the Note is outstanding, extend the maturity date by one year to the next extended maturity date at predetermined rates up to July 25, 2005.

(3) Principal and interest are payable in annual blended instalments of 599,992,903 yen (6,529 CDN dollars) to maturity. Additional principal and interest to swap counterparty are payable in annual blended instalments of 4,150 CDN dollars to maturity.

(4) Interest is payable semi-annually. Redemption amount at maturity is based on the Ten Year Yen Swap Rate.

(5) Interest is based on the average of two-year swap rates for six countries.

(6) BDC will pay the nominal amount at maturity plus variable interest related to the performance of the S & P 500 index. The noteholder may elect to receive the variable interest from time to time prior to maturity date.

(7) Redemption amount at maturity is based on the performance of the Goldman Sachs Commodity Index.

(8) Interest is compounded semi-annually and payable at redemption or maturity date. BDC has the option to redeem the Notes annually prior to maturity beginning July 17, 1997.

(9) Principal and interest are payable in uneven monthly instalments to maturity.

(10) BDC will pay the nominal amount at maturity plus variable interest related to the performance of the NIKKEI 225 index. The noteholder may elect to receive the variable interest from time to time prior to maturity date.

(11) Interest is compounded semi-annually and payable at maturity. Annually, BDC has the right to redeem the Note prior to maturity starting June 27, 1998.

(12) BDC will pay the nominal amount at maturity plus variable interest related to the performance of the S & P 500 index and the TSE 35 index. The noteholder may elect to receive the variable interest from time to time prior to maturity date.

(13) Interest is compounded semi-annually and payable at redemption or maturity date. BDC has the option to redeem the Note prior to maturity beginning October 20, 1997.

(14) BDC may, at its option, redeem the Note annually on each coupon date at a predetermined rate starting November 2, 1998.

(15) Interest is compounded semi-annually and payable on redemption date or at maturity. BDC has the option to redeem the Note starting December 12, 2000.

(16) On January 5, 1998, BDC has the right to call the Note for redemption. Interest is payable semi-annually.

(17) Interest is compounded semi-annually and payable on redemption date or at maturity. BDC has the option to redeem the Note starting March 2, 1998.

(18) Interest is compounded semi-annually and payable on the call date or at maturity. BDC may, at its option, call the Note semi-annually on each coupon date, starting April 19, 1999.

(19) Interest is compounded semi-annually and payable on redemption or at maturity. Annually, BDC has the option to redeem the Note starting March 18, 1998.

(20) Interest is payable annually. BDC may, at its option, redeem the Note on each coupon date, starting June 17, 1998.

The preceding table includes $1,939,339 in 1997 and $1,808,963 in 1996 of long-term notes payable which have been the subject of interest rate swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio.

As at March 31, the payments on long-term notes are as follows:

	1997	1996
1997		675,034
1998	682,800	502,822
1999	464,916	262,736
2000	183,151	6,501
2001	79,872	79,872
2002	143,600	
2003	16,000	
2004	64,000	
2006	413,000	388,000
2007	60,000	
2008	32,000	32,000
2009	25,000	
	2,164,339	1,946,965

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

10. Share capital and statutory limitations

Share capital

Authorized :

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding	1997		1996	
	Number of shares	Amount	Number of shares	Amount
Preferred shares				
Class A				
—Series 1 ..	500,000	50,000	500,000	50,000
—Series 2 ..	500,000	50,000		
		100,000		50,000
Common shares	3,034,000	303,400	3,034,000	303,400
Total outstanding share capital		403,400		353,400

Class A Preferred Shares, Series 1 have a fixed, preferential and cumulative dividend of 6.805% per annum, commencing April 1996 until March 31, 1999, and thereafter, to March 31, 2002 and for each subsequent three-year period, the rate shall be adjusted as at the beginning of the period, so as to equal the consolidatd revenue fund's three-year term lending rate published by the Minsiter of Finance for the month of March last preceding the period plus 3/8ths of 1%. Such shares are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share, Series 1. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day.

Class A Preferred Shares, Series 2 have a fixed, preferential and cumulative dividend of 5.215% per annum, commencing April 1997 until March 31, 2000, and thereafter, to March 31, 2003 and for each subsequent three-year period, the rate shall be adjusted as at the beginning of the period, so as to equal the consolidated revenue fund's three-year term lending rate published by the Minister of Finance for the month of March last preceding the period plus 3/8ths of 1%. Such shares are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share, Series 2. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day.

On July 13, 1995, the existing capital of $590,000 paid in by Canada was converted into 5,900,000 common shares of the Business Development Bank of Canada on the basis of one common share for each $100 (one hundred dollars) of capital paid in by Canada.

Effective March 31,1996, the Board of Directors, with the approval of the Governor in Council, authorized the cancellation of 2,866,000 of those common shares and a corresponding reduction of $286,000 in paid-in capital, thus eliminating $286,600 of the accumulated deficit.

During the year ended March 31, 1997, the Bank issued 500,000 Class A-Series 2 preferred shares for a cash consideration of $50,000.

Statutory limitations

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the equity of the Bank.

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed $1.5 billion.

11. Interest expense

	1997	1996
Interest on borrowings	154,731	200,696
Security and short-term investment income	(20,094)	(21,897)
	134,637	178,799

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

12. Operating and administrative expenses

	1997			1996		
	Financial services		Management services	Financial services		Management services
	Loans division	Venture capital division		Loans division	Venture capital division	
Salaries and staff benefits	50,119	2,223	22,104	50,592	2,020	20,547
Premises and equipment	14,516	418	3,093	13,035	492	3,191
Other expenses	39,771	1,403	9,213	31,201	1,442	9,139
Reorganization charge				20,291		350
	104,406	4,044	34,410	115,119	3,954	33,227

13. Parliamentary appropriation

During the six-month period, from April to September 1996, Parliamentary appropriations totalling $6,948 were received by the Bank. In September 1996, the Bank decided to fund the operations of the Management Services Division entirely from internal resources, resulting in a net loss for the year of $7,704. Accordingly, with effect from that date, BDC will no longer receive funding from the Government of Canada.

14. Fair value of financial instruments

The amounts set out below represent the fair values of on-and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties, however many of the financial instruments lack an available trading market. Therefore, fair values are estimated using present value and other valuation techniques which are extensively affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

The carrying values are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	1997			1996		
	Carrying value	Fair value	Fair value over (under) carrying value	Carrying value	Fair value	Fair value over (under) carrying value
Balance sheet						
Assets						
Cash and short-term investments	426,946	426,946		227,547	227,547	
Securities (Note 4)	117,475	120,997	3,522	164,452	163,368	(1,084)
Loans	3,386,356	3,418,283	31,927	3,111,361	3,128,890	17,529
Venture capital investments	41,444	75,867	34,423	31,836	65,848	34,012
Other assets	36,503	36,503		20,659	20,659	
	4,008,724	4,078,596	69,872	3,555,855	3,606,312	50,457
Liabilities						
Accounts payable and accrued liabilities	30,316	30,316		30,357	30,357	
Accrued interest on borrowings	77,090	77,090		43,764	43,764	
Short-term notes	1,206,631	1,206,631		1,098,190	1,098,190	
Long-term notes	2,164,339	2,322,489	158,150	1,946,965	1,980,789	33,824
	3,478,376	3,636,526	158,150	3,119,276	3,153,100	33,824
			(88,278)			16,633
Off-balance sheet						
Derivative financial instruments (Note 15)	(41,953)	80,408	122,361	(31,250)	(12,565)	18,685
Total			34,083			35,318

Fair values are based on a range of valuation methods and assumptions which are as follows:

Financial instruments valued at carrying value-The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

Securities—The fair value of securities is provided in Note 4 to the financial statements.

Loans—For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under Loans and allowance for credit losses.

Venture capital investments—For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

Long-term notes—The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

Derivative financial instruments—The fair value of derivative financial instruments is provided in Note 15 to the financial statements.

15. Derivative financial instruments

The Bank enters into derivative financial instruments as hedging transactions for the sole purpose of matching its assets and liabilities and hedging market risk exposure. These transactions are designed to reduce the Bank's exposure to mismatches in revenue and expenses resulting from fluctuations in interest rates and foreign exchange.

These transactions include interest rate swap contracts, forward rate agreements, interest rate option contracts, cross-currency interest rate swap contracts, currency swap contracts, foreign exchange forward contracts, and foreign currency option contracts.

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

Interest rate swap contracts

Interest rate swap contracts are agreements between two parties to exchange interest flows on a specific notional amount for a predetermined period, based on agreed fixed and floating rates.

Forward rate agreements

Forward rate agreements are contracts negotiated between two parties to buy or sell financial instruments at future dates and at specified rates.

Interest rate option contracts

Interest rate option contracts are agreements granting the purchaser the right to either purchase from or sell to the writer of the option a specified financial instrument on agreed terms. In consideration of the interest rate risk, the seller receives a premium from the purchaser.

Cross-currency interest rate swap contracts

Cross-currency interest rate swap contracts are agreements between two parties to exchange both currencies and interest rates on a specific notional amount for a predetermined period.

Currency swap contracts

Currency swap contracts are agreements between two parties to exchange currencies at specific prices and at predetermined dates.

Foreign exchange forward contracts

Foreign exchange forward contracts are commitments to exchange two currencies at a predetermined date and at a rate agreed upon by the parties at the transaction date.

Foreign currency option contracts

Foreign currency option contracts are agreements to buy and sell specified amounts of foreign currencies at fixed prices on specified future dates.

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by unrealized gains or losses.

Off-balance sheet instruments

	1997			1996		
	Positive	Negative	Net amount	Positive	Negative	Net amount
Derivative financial instruments						
Interest rate swap contracts	73,138	42,492	30,646	27,843	44,451	(16,608)
Forward rate agreements	334	548	(214)	111	51	60
Interest rate option contracts						
Cross-currency interest rate swap contracts	73,831	23,365	50,466	52,642	41,643	10,999
Foreign exchange contracts						
Currency swap contracts						
Foreign exchange forward contracts	8,545	9,035	(490)	542	7,558	(7,016)
Foreign currency option contracts						
Total	155,848	75,440	80,408	81,138	93,703	(12,565)

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

The fair value of derivatives is presented on a net basis after the impact of legally enforceable master netting agreements. The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

The following table represents the notional amount and replacement cost of the derivative financial instruments as at March 31.

	1997		1996	
	Notional amount *	Replacement cost **	Notional amount *	Replacement cost **
Interest rate contracts				
Interest rate swap contracts	2,638,256	73,138	2,487,320	27,843
Forward rate agreements	1,839,000	334	539,000	111
Interest rate option contracts			207,354	
Cross-currency interest rate swap contracts	772,087	73,831	1,011,333	52,642
Foreign exchange contracts				
Currency swap contracts			57,705	
Foreign exchange forward contracts	730,160	8,545	971,080	542
Foreign currency option contracts			40,510	
Total	5,979,503	155,848	5,314,302	81,138

* The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

** Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

Concentration of credit risk

The notional amounts of financial instruments held by the Bank are not indicative of the credit or market risk exposure associated with the contracts. The risk of loss is related only to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines. The Bank believes it does not have any significant concentrations in any individual financial institution. The Bank continually monitors its position and the credit ratings of its counterparties. The credit exposure is calculated on a contract by contract basis for each counterparty and is reported as being the replacement value of all outstanding contracts, after giving effect to master netting agreements.

BUSINESS DEVELOPMENT BANK OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

At year end, counterparty credit risk exposure is as follows:

Counterparty credit risk exposure	Counterparty ratings					
	AAA	AA+	AA	AA-	A+	A
Amount						
March 31, 1997	59,671	3,306	7,521	40,707	322	19
March 31, 1996	5,083		19,867	10,354	12,476	3
Number of counterparties						
March 31, 1997	8	1	4	11	1	1
March 31, 1996	4		3	4	3	1

The following table summarizes the repricing or maturity dates and weighted interest rates paid and received on interest rate contracts:

	Term to maturity or repricing								1997	1996
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	Notional amount	Notional amount
Interest rate contracts										
Interest rate swap contracts										
$CDN payable-fixed	570,939	5.35	163,792	6.13	16,941	7.25			751,672	904,677
$CDN receivable-fixed	225,000	7.85	195,000	5.20	75,000	7.43	642,500	7.00	1,137,500	1,134,413
$US receivable-fixed	61,965	8.80	21,809	6.89					83,774	
Basis swaps	50,000	n.a.			105,000	n.a			155,000	155,000
Other	267,800	n.a.	137,510	n.a			105,000	n.a	510,310	293,230
	1,175,704		518,111		196,941		747,500		2,638,256	2,487,320
Forward rate agreements	1,839,000	n.a.							1,839,000	539,000
Interest rate option contracts										207,354
Cross-currency interest rate swap contracts	389,001	n.a.	217,677	n.a.	165,409	n.a.			772,087	1,011,333
Total interest rate contracts	3,403,705		735,788		362,350		747,500		5,249,343	4,245,007
Foreign exchange contracts										
Currency swap contracts										57,705
Foreign exchange forward contracts	730,160	n.a.							730,160	971,080
Foreign currency option contracts										40,510
Total foreign exchange contracts	730,160								730,160	1,069,295
Total	4,133,865		735,788		362,350		747,500		5,979,503	5,314,302

n.a.- not applicable as weighted rates are not significant.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one-or three-month Canadian Bankers' Acceptance. All amounts in US dollars are converted into Canadian dollar equivalent.

BUSINESS DEVELOPMENT BANK OF CANADA—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

16. Contingent liabilities and commitments

As at March 31, 1997:

(a) various legal proceedings arising from the normal course of business are pending against the Bank. Management considers that the aggregate liability resulting from these proceedings will not be material.

(b) the undisbursed amounts on loans authorized total $354,032. These loan commitments are for an average period of three months ($91,457 in fixed, $262,575 in floating). The effective interest rates on these loan commitments vary from 5.62% to 15.70%. The undisbursed amounts on venture capital investments authorized total $18,375.

(c) the future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

1998	11,904
1999	9,937
2000	9,400
2001	9,048
2002	8,706
2003-2020	118,974
	167,969

17. Employee pension benefits

Based on the latest actuarial valuation prepared as at December 31, 1996, the present value of the accrued pension benefits of the current employees and the actuarial value of the assets of the Pension Plan for the Employees amounted to $273,033 and $307,210 respectively. The employee pension benefits expense included in the Statement of Income for the year ended March 31, 1997 amounts to $1,209 ($904 income in 1996). The cumulative difference between the amounts expensed and the funding contributions is recorded in the Balance Sheet under "Other liabilities".

18. Cultural industries development fund

The Bank administers on behalf of the Department of Canadian Heritage (DOCH), the Cultural Industries Development Fund (CIDF). The CIDF was developed to provide, under certain conditions, flexible financing and management counselling to businesses involved in the Canadian cultural industries. The initial agreement stipulated that DOCH would finance up to $33,000 over a five-year period commencing in 1992. As at March 31, 1997, a cumulative amount of $28,878 was received, part of which covered the administration and delivery of the program. During the year, the agreement was extended to March 31, 1998. This fund is not accounted for in the financial statements of the Bank.

19. Related party transactions

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business.

20. Comparative financial data

Certain comparative figures have been reclassified to conform with the presentation adopted in 1997.

CANADA COUNCIL

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements contained in this annual report have been prepared by Management of the Canada Council (the Council) in accordance with generally accepted accounting principles. The integrity and objectivity of the data in these financial statements are Management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Canada Council Act* and by-laws of the Council.

The Council is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Council meets with Management and the independent external auditor to review the manner in which they are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Council has reviewed the financial statements with the external auditor and has approved them.

The Council's external auditor, the Auditor General of Canada, examines the financial statements and reports to Council and the Minister responsible for the Council.

Approved by Management:

Secretary-Treasurer
Camille Guérin

Director, Arts Division
Joanne Morrow

AUDITOR'S REPORT

TO THE CANADA COUNCIL AND THE
MINISTER OF CANADIAN HERITAGE

I have audited the balance sheets of the Endowment Account and Special Funds of the Canada Council as at March 31, 1997 and the statements of revenue and expense, equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 30, 1997

CANADA COUNCIL—*Continued*

ENDOWMENT ACCOUNT

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Cash and short-term deposits (Note 3)	2,928	3,355
Parliamentary appropriation receivable		2,064
Accrued investment income	573	1,389
Accounts receivable	846	514
Deferred charges	1,252	842
Investments (Note 5)	174,542	138,514
Capital assets (Note 6)	2,433	3,649
Works of art	17,676	17,876
	200,250	168,203

LIABILITIES	1997	1996
Bank indebtedness		6,450
Grants payable	14,448	11,764
Accounts payable and accrued liabilities (Note 7)	3,287	2,333
Deferred credits (Note 8)	4,602	5,340
Due to Special Funds	7,116	5,802
Due to Special Trusts (Note 9)	2,687	2,775
	32,140	34,464
EQUITY		
Endowment		
Principal	50,000	50,000
Appropriated surplus	94,770	60,199
	144,770	110,199
Surplus		
Works of art	17,676	17,876
Operating	5,664	5,664
	23,340	23,540
	168,110	133,739
	200,250	168,203

On behalf of the Council:

DONNA SCOTT
Chair

FRANÇOIS COLBERT
Vice-chair

CANADA COUNCIL—*Continued*

STATEMENT OF REVENUE AND EXPENSE OF THE ENDOWMENT ACCOUNT FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Revenue		
Parliamentary appropriation	91,093	97,946
Net gains on disposal of investments (Note 10)	6,107	8,044
Net interest and dividends (Note 11)	6,093	7,086
Art Bank rental fees	1,161	1,327
Other	609	1,079
	105,063	115,482
Expense		
Arts Division		
Grants (Schedule 1)	84,694	84,300
Administration (Schedule 2)	7,966	8,591
Services to the arts	1,575	1,789
	94,235	94,680
Canadian Commission for Unesco		
Administration (Schedule 2)	843	992
Program	191	180
	1,034	1,172
General administration (Schedule 2)	7,619	7,556
	102,888	103,408
Excess of revenue over expense before restructuring expenses and net gains related to the new investment strategy	2,175	12,074
Restructuring expenses (Note 12)	(1,312)	(2,647)
Net gains related to the new investment strategy, reinvested (Note 10)	33,508	
Excess of revenue over expense for the year	34,371	9,427

STATEMENT OF EQUITY OF THE ENDOWMENT ACCOUNT FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Endowment		
Principal	50,000	50,000
Appropriated surplus		
Balance at beginning of the year	60,199	54,272
Appropriated from surplus during the year (Note 13)	34,571	5,927
Balance at end of the year	94,770	60,199
Balance of Endowment at end of the year	144,770	110,199
Surplus		
Works of art		
Balance at beginning of the year	17,876	17,933
Net disposals and adjustments during the year	(200)	(57)
Balance at end of the year	17,676	17,876
Operating		
Balance at beginning of the year	5,664	2,164
Excess of revenue over expense for the year	34,371	9,427
Net disposals and adjustments during the year	200	
Appropriated during the year (Note 13)	(34,571)	(5,927)
Balance at end of the year	5,664	5,664
Balance at end of the year	23,340	23,540

CANADA COUNCIL—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION
OF THE ENDOWMENT ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Operating activities		
Excess of revenue over expense for the year	34,371	9,427
Items not affecting cash		
Amortization	1,216	784
Net gains related to new investment strategy, reinvested (Note 10)	(33,508)	
	2,079	10,211
Change in non-cash operating assets and liabilities	6,464	(5,823)
Funds provided by operating activities	8,543	4,388
Investment activities		
Net gains related to new investment strategy (Note 10)	33,508	
Net increase in investments	(36,028)	(10,693)
Funds applied to investment activities	(2,520)	(10,693)
Increase (decrease) in funds	6,023	(6,305)
Cash position at beginning of the year	(3,095)	3,210
Cash position at end of the year	2,928	(3,095)
Composed of:		
Cash and short-term deposits	2,928	3,355
Bank indebtedness		(6,450)
	2,928	(3,095)

SPECIAL FUNDS

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Cash and short-term deposits (Note 3)	11,299	2,213
Accrued interest and accounts receivable	347	543
Investments (Note 5)	46,550	46,012
Due from Endowment Account	7,116	5,802
Musical instruments	930	930
	66,242	55,500

LIABILITIES	1997	1996
Grants payable	2,145	2,786
Accounts payable and accrued liabilities	90	67
	2,235	2,853
EQUITY		
Fund capital		
Principal	35,328	35,328
Appropriated surplus	27,665	16,447
	62,993	51,775
Surplus	1,014	872
	64,007	52,647
	66,242	55,500

On behalf of the Council:

DONNA SCOTT
Chair

FRANÇOIS COLBERT
Vice-chair

CANADA COUNCIL—*Continued*

STATEMENT OF REVENUE AND EXPENSE OF THE SPECIAL FUNDS FOR THE YEAR ENDED MARCH 31, 1997 (in thousands of dollars)

	1997	1996
Revenue		
Net gains on disposal of investments (Note 10)	4,811	2,407
Net interest and dividends (Note 11)	2,534	3,188
Other	27	157
	7,372	5,752
Expense		
Grants	2,170	2,753
Administration	358	396
	2,528	3,149
Excess of revenue over expense before net gains related to the new investment strategy	4,844	2,603
Net gains related to the new investment strategy, reinvested (Note 10)	6,516	
Excess of revenue over expense for the year	11,360	2,603

STATEMENT OF CHANGES IN FINANCIAL POSITION OF THE SPECIAL FUNDS FOR THE YEAR ENDED MARCH 31, 1997 (in thousands of dollars)

	1997	1996
Operating activities		
Excess of revenue over expense for the year	11,360	2,603
Net gains related to the new investment strategy, reinvested (Note 10)	(6,516)	
Change in non-cash operating assets and liabilities	(1,736)	(83)
Funds provided by operating activities	3,108	2,520
Financing activities		
Contributions received		22
Investment activities		
Net gains related to the new investment strategy (Note 10)	6,516	
Net increase in investments	(538)	(3,337)
Funds provided by (applied to) investment activities	5,978	(3,337)
Increase (decrease) in funds	9,086	(795)
Cash and short-term deposits at beginning of the year	2,213	3,008
Cash and short-term deposits at end of the year	11,299	2,213

STATEMENT OF EQUITY OF THE SPECIAL FUNDS (Note 4) FOR THE YEAR ENDED MARCH 31, 1997 (in thousands of dollars)

	1997	1996
Fund capital		
Principal		
Balance at beginning of the year	35,328	35,306
Contributions received		22
Balance at end of the year	35,328	35,328
Appropriated surplus		
Balance at beginning of the year	16,447	14,040
Appropriated from surplus during the year (Note 13)	11,218	2,407
Balance at end of year	27,665	16,447
Balance of Fund capital at end of the year	62,993	51,775
Surplus		
Balance at beginning of the year	872	676
Excess of revenue over expense for the year	11,360	2,603
Appropriated during the year (Note 13)	(11,218)	(2,407)
Balance at the end of year	1,014	872

CANADA COUNCIL—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997

1. Authority, operations and objectives

The Canada Council was established by the *Canada Council Act* in 1957 which authorized the creation of an Endowment Fund of $50 million pursuant to Section 13 of the Act. Except for the annual parliamentary appropriation, monies or properties donated to the Council pursuant to Section 18 of the Act are generally accounted for as Special Funds or Special Trusts. The Council has been assigned the functions and duties for the Canadian Commission for UNESCO pursuant to paragraph 8(2) of the Act. The Council is not an agent of Her Majesty. Its objectives are to foster and promote the study, enjoyment and production of, works in the arts.

2. Significant accounting policies

The most significant accounting policies are:

(a) Investments

Equities, bonds, debentures and mortgages are recorded at cost. Special Funds with capital in excess of $250,000 and received after January 1, 1990 are merged with the Endowment Account. The participation of each fund is calculated on the basis of market value as at the date the monies are received. Interest, dividends, gains and losses on disposal of investments are allocated to each fund based on the percentages established by Council at the beginning of each quarter.

Special Funds with capital of less than $250,000 and Special Trusts earn interest calculated quarterly using the ninety day Treasury Bill rate at the beginning of the quarter.

Investments are written down to market value when the loss in value is considered to be other than a temporary decline.

(b) Foreign currency transactions

Foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date. Monetary assets denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the end of the year.

(c) Capital assets

Equipment and leasehold improvements are recorded at cost and amortized over their estimated useful lives on the straight-line method, as follows:

Office equipment	5 years
Leasehold improvements	term of the lease

Gains and losses on disposals are netted against the amortization expense in the year of disposal.

(d) Works of art

Works of art acquired by the Canada Council Art Bank are recorded at laid-down cost and no amortization is recorded.

(e) Donated property—Special Funds

Donated property is recorded at appraised value and the amount is credited to the principal of the fund capital.

(f) Musical instruments—Special Funds

Musical instruments are recorded at cost and no amortization is recorded.

(g) Special Funds and Special Trusts

Special Funds and Special Trusts include amounts received by way of bequest, gift or donation and may be specific as to purpose.

Special Funds are managed at the full discretion of the Canada Council and are invested in accordance with the policies of the Endowment Fund.

Special Trusts are either managed or allowed to have their capital drawn down, in accordance with the donor's wishes.

(h) Employee termination benefits

Employees are entitled to specific termination benefits as provided for under the Council's policy and conditions of employment. The cost of these benefits is expensed in the year in which employees become eligible.

(i) Capitalization of net income of Special Funds

The Council normally capitalizes 10% of the revenue less administration expenses of the Izaak Walton Killam Memorial Fund for Advanced Studies and the Killam Special Scholarship Fund, in accordance with advice received from the trustees of these Funds in order to preserve the equity for future beneficiaries. However, the Council has the right to draw at any time on the accumulated net income capitalized, for the purposes of the funds.

(j) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Council contribute equally to the cost of the Plan. This contribution represents the total liability of the Council. The Council is not required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(k) Parliamentary appropriations

Parliamentary appropriations to the Council are recorded as revenue in the year in which they are approved by Parliament.

(l) Grants and services

Grants are recorded as an expense in the year for which they are approved by Council. Cancelled grants and refunds of grants approved in prior years are shown as revenue.

Services to the arts, which include juries, advisory committees, prizes and other costs that directly serve artists or the arts community, are recorded as expenses in the year in which they are incurred.

3. Cash and short-term deposits

The Council invests temporary surplus cash in the short-term money market. All instruments held in short-term investments are rated R1 (low) or A (low) or better by a recognized bond rating agency. Except for federal and federally guaranteed instruments, no more than 10% of the short-term portfolio is invested with one issuer.

The fair market value of short-term investments as at March 31, 1997 and 1996 approximated the net book value.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

4. Special Funds

(a) Izaak Walton Killam Memorial

A bequest of $12,339,615 in cash and securities was received from the estate of Mrs. Dorothy J. Killam. The net income from this fund is to be used "to provide scholarships for advanced study or research in any field of study or research other than the 'arts' as presently defined in the *Canada Council Act* and not limited to the 'humanities and social sciences' referred to in such Act".

The bequest contains the provision that the fund shall not form part of the Endowment Account or otherwise be merged with any assets of the Council, and in the event that the Canada Council should ever be liquidated or its existence terminated or its powers and authority changed so that it is no longer able to administer any Killam Trust, the assets forming any such Killam Trust shall thereupon be paid over to certain universities which have also benefited under the will. The cash and securities received and the proceeds have been invested in a separate portfolio.

The fund equity as at March 31, 1997 was $27,610,971 (1996—$22,251,678).

(b) Killam Special Scholarship

This fund was established by way of securities received from Mrs. Dorothy J. Killam. Dividends and proceeds from the redemption of those securities amounted to $13,653,344.

The net income from this fund is available to provide prizes and fellowship grants to Canadians for advanced study or research in the fields of medicine, science and engineering.

The fund equity as at March 31, 1997 was $25,383,628 (1996—$20,972,664).

(c) Jean A. Chalmers

An endowment of $500,000 in cash was received from Mrs. Floyd S. Chalmers to establish a special Jean A. Chalmers Fund for the crafts. In consultation with the Canadian Crafts Council, the income of the fund is used to provide a small number of special project grants for the development or advancement of the crafts in Canada.

The fund equity as at March 31, 1997 was $509,651 (1996—$521,793).

(d) Molson Prize

Gifts of $1,000,000 were received from the Molson Foundation for the establishment of the Molson Prize Fund. The income of the fund is used for awarding cash prizes to Canadians "for outstanding achievement in the fields of the Arts, the Humanities or the Social Sciences".

The fund equity as at March 31, 1997 was $2,409,451 (1996—$1,895,268).

(e) Lynch-Staunton

This fund was established by a bequest in cash of $699,066 received from the estate of V. M. Lynch-Staunton, the income from which is available for the regular programs of the Council.

The fund equity as at March 31, 1997 was $2,400,274 (1996—$1,864,079).

(f) Vida Peene

This fund was established by a bequest in cash of $599,761 received from Vida Peene to provide payments to specified organizations.

The fund equity as at March 31, 1997 was $600,075 (1996—$599,761).

(g) Joseph S. Stauffer

This fund was established by bequests in cash totalling $400,000 from the estate of Joseph S. Stauffer, the income from which is to provide prizes to encourage promising young Canadians in the fields of music, visual arts and literature.

The fund equity as at March 31, 1997 was $461,083 (1996—$456,306).

(h) John G. Diefenbaker

The Council received an endowment of $1,000,000 from the Government of Canada. The income from this endowment is to be used to provide an annual grant to a German scholar to engage in research or advanced studies in Canada.

The fund equity as at March 31, 1997 was $1,523,961 (1996—$1,202,095).

(i) Coburn Fellowship

This fund was established by a bequest totalling $945,363 received from the estate of Kathleen Coburn. The income from the fund is to provide for exchanges of scholars between Israël and Canada.

The fund equity as at March 31, 1997 was $1,343,163 (1996—$1,098,005).

(j) Other

The following Special Funds have an original capital of less than $250,000 and have a total fund equity as at March 31, 1997 of $1,764,716 (1996—$1,784,981).

(i) Frances Elizabeth Barwick and J. P. Barwick

Bequests totalling $93,000 in cash were received from the estates of Mrs. Frances Elizabeth Barwick and J. P. Barwick. The total fund is to be used for the benefit of the musical arts and is being used for the Council's Musical Instrument Bank.

(ii) John B. C. Watkins

This fund was established by a bequest consisting of the net income from the residue of the estate of the late John B. C. Watkins to provide scholarships for post-graduate studies.

(iii) The Duke and Duchess of York Prize in Photography

The Council received an endowment of $170,000 from the Government of Canada to mark the occasion of the marriage of The Duke and Duchess of York. The income from this endowment is to be used to provide an annual scholarship to a professional artist for personal creative work or advanced study in photography.

CANADA COUNCIL—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

(iv)Petro Canada Award

Petro Canada donated $50,000 toward an award in the media arts. The income from this donation is to be used to provide an award every two years to an artist who has achieved outstanding and innovative use of new technology in the media arts.

(v) Ronald J. Thom Award

The Council was the beneficiary of donations totalling $106,898 to provide an award every two years "to a candidate in the early stages of his or her career in architecture, who demonstrates outstanding creative talent in architectural design and a sensitivity to its allied arts".

(k) Funds will eventually be received from the following bequests:

(i) Edith Davis Webb

This fund, estimated at $400,000, is intended "for the purpose of making grants or establishing scholarships for musical study in such manner as the Council shall determine".

(ii) John Stephen Hirsch

This fund, the amount of which cannot be determined at this time, is being established from the estate of John Hirsch for specific purposes. An interim distribution of $135,000 has been received from the estate.

5. Investments

	1997		1996	
	Cost	Market value	Cost	Market value
	(in thousands of dollars)			
Endowment Account				
Pooled funds	145,678	153,135	15,546	23,098
Equities			64,404	79,837
Bonds	28,468	28,354	58,095	59,869
Mortgages	396	396	469	469
	174,542	181,885	138,514	163,273
Special Funds				
Bonds	21,872	21,668	19,357	19,622
Pooled funds	14,200	14,649	4,274	4,851
Equities	10,419	11,023	22,287	26,406
Mortgages	59	59	94	94
	46,550	47,399	46,012	50,973

The Council has recently transferred approximately 60% of its investment portfolios into units of two global equity pooled funds.

No one equity holding shall represent more than 10% of the voting shares of a corporation or of the market value of any one manager's equity portfolio. In pooled funds, derivative securities may be used only for the purposes of currency hedging up to 100% of the underlying foreign equity in any one country. Currency hedging may be for protective purposes only and must be hedged back to Canadian dollars.

All bonds are rated "BBB" or better by a recognized bond rating agency. Except for federal and federally guaranteed instruments, no more than 10% of a managers' portfolio may be invested with one issuer. As at March 31, 1997, the Endowment Account has invested $27,353,000 and the Special Funds Account has invested $20,710,000 in Government of Canada bonds with an average duration of two and one half years.

6. Capital assets

	1997			1996
	Cost	Accumulated amortization	Net book value	Net book value
	(in thousands of dollars)			
Office equipment	2,675	2,345	330	637
Leasehold improvements	4,418	2,315	2,103	3,012
	7,093	4,660	2,433	3,649

7. Accounts payable and accrued liabilities

	1997	1996
	(in thousands of dollars)	
Accounts payable	802	521
Accrued termination benefits	749	660
Accrued restructuring expenses	651	
Accrued liabilities	551	477
Accrued vacation pay	306	289
Accrued payroll expenses	228	386
	3,287	2,333

8. Deferred credits

	1997	1996
	(in thousands of dollars)	
Deferred lease inducement	3,542	4,150
Deferred rent	240	360
Art Bank—Rentals of works of art	298	292
Canadian Commission for Unesco	480	473
Other	42	65
	4,602	5,340

The deferred lease inducement represents an inducement payment received from the landlord and is being amortized against rental accommodation expense over the term of the lease. Deferred rent represents an amount received from another federal government agency to cover the rental of space over the next four years.

Amounts from the Canadian Commission for Unesco represent funds received for specific programs for which expenses have not yet been incurred. Funds received during the year amounted to $276,000 (1996—$356,000); funds expended during the year amounted to $269,000 (1996—$219,000).

CANADA COUNCIL—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

9. Due to Special Trusts

These funds have been accounted for separately due to special conditions related to the donations. Trusts with balances exceeding $50,000 are:

(i) Glenn Gould Prize Fund

The Council has received $525,113 from the Glenn Gould Memorial Foundation to provide a prize of $50,000 every three years (funds permitting) to an outstanding individual for his or her original contribution to the field of music and communications. As at March 31, 1997, the balance was $890,488 (1996—$917,900).

(ii) Japan-Canada Literary Prize

The Council received an endowment of $966,651 from the Government of Japan "to further strengthen the relations between Canada and Japan". The balance of the endowment is to be used to fund an annual literary prize of $10,000. As at March 31, 1997, the balance was $257,938 (1996—$257,519).

(iii) Japan-Canada Fund

The Council received endowments totalling $2,077,800 from the Government of Japan. The endowments are to be used primarily to fund Japanese artists' participation in Canadian cultural activities. As at March 31, 1997, the balance was $1,503,395 (1996—$1,600,004).

10. Net gains on disposal of investments

Pursuant to a new investment strategy to generate greater returns and preserve the future value of the Endowment and Special Funds, the Canada Council changed the nature of its holdings in the Funds' investment portfolios. To accomplish this, the Council sold the major part of its investment portfolios and reinvested the proceeds in the respective funds. Capital gains realized as part of normal investment activities have been included with revenue on the statements of revenue and expense, whereas the net gains related to the new investment strategy, $33,508,000 to the Endowment Account and $6,516,000 to the Special Funds, have been disclosed separately on these statements.

11. Net interest and dividends

	1997	1996
	(in thousands of dollars)	
Endowment Account		
Interest and dividends	6,897	7,650
Investment portfolio management costs	(804)	(564)
Net interest and dividends	6,093	7,086
Special Funds		
Interest and dividends	2,749	3,341
Investment portfolio management costs	(215)	(153)
Net interest and dividends	2,534	3,188

12. Restructuring expenses

On March 1, 1995 the Canada Council released its Strategic Plan entitled The Canada Council: A Design for the Future. The plan called for the Council to undertake a major restructuring of its program and administrative sections over the next three years. During the year, as outlined in the Plan, the Council further restructured and streamlined the organization in order to reduce administrative costs by 1998. This was achieved by reducing the salary costs through retirements and layoffs. The cost of the severance packages and related expenses was $1,312,000 (1996—$2,647,000). These restructuring expenses were partially offset through receipt of a supplementary parliamentary appropriation of $292,000 (1996—$2,064,000).

13. Appropriation of Surplus

The Council has approved a resolution for the appropriation of Surplus to the Fund capital as at March 31, 1997 of $34,571,000 for the Endowment Account and $11,218,000 for the Special Funds in order to provide for the continued growth of fund capital.

14. Commitments

(a) Payments of grants extending into future years are subject to the provision of funds by Parliament. Future year grants approved prior to March 31, 1997 are payable as follows:

	(in thousands of dollars)
1998	6,742

(b) The Council is party to long-term leases with respect to rental accommodation. The aggregate minimum annual rental is as follows:

	(in thousands of dollars)
1998	2,987
1999	3,131
2000	2,601
2001	2,251
2002	2,251
2003-2004	3,564

For the year ended March 31, 1997, the annual rentals have been reduced by $2,425,000 as a result of sub-leases with Public Works and Government Services Canada.

15. Related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the Council enters into transactions with Government of Canada departments, agencies and Crown Corporations in the normal course of business, at the same trade terms applicable to all individuals and enterprises.

16. Comparative figures

Certain of the 1996 figures have been reclassified to conform to the 1997 presentation.

CANADA COUNCIL—*Concluded*

SCHEDULE OF GRANT EXPENSES BY SECTION
OF THE ENDOWMENT ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars) SCHEDULE 1

	1997	1996 (Restated)
Music	16,486	16,296
Theatre	15,564	15,943
Writing and Publishing	15,296	15,502
Visual Arts	10,552	9,692
Dance	8,994	10,742
Public Lending Right Commission	5,981	6,095
Touring Office	5,589	4,035
Media Arts	5,496	5,397
Other	736	598
	84,694	84,300

SCHEDULE OF ADMINISTRATION EXPENSES
OF THE ENDOWMENT ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars) SCHEDULE 2

	Arts division	Canadian Commission for Unesco	General administration	Total 1997	Total 1996
Salaries	4,820	574	2,262	7,656	8,213
Employee benefits	875	102	454	1,431	1,486
Office accommodation	1,108	94	1,765	2,967	3,476
Amortization	117		1,099	1,216	784
Professional and special services	245	45	611	901	888
Printing, publications and duplicating	31	5	428	464	481
Communications	266	23	156	445	557
Staff travel	339		97	436	483
Information management	29		351	380	327
Meeting expenses including members' honoraria	93		201	294	225
Office expenses and equipment	1		195	196	171
Miscellaneous	42			42	48
	7,966	843	7,619	16,428	17,139

CANADA DEPOSIT INSURANCE CORPORATION

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Canada Deposit Insurance Corporation and the information related to the financial statements in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles, and particular consideration was given to the new CICA Accounting Recommendations pertaining to Financial Instruments and Measurement Uncertainty. The financial statements include some amounts, the most significant ones being the loans and claims receivable, the provision for guarantees and the provision for insurance losses, that are necessarily based on management's best estimates and judgement.

The financial statements have been approved by the Board of Directors. Financial information presented elsewhere in the Annual Report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are duly authorized, assets are safeguarded and proper records are maintained in accordance with the *Financial Administration Act* and regulations as well as the *Canada Deposit Insurance Corporation Act* and by-laws of the Corporation. The system of internal control is augmented by internal audit, which conducts periodic reviews of different areas of the Corporation's operations. In addition, the internal and external auditors have free access to the audit committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting and which recommends the financial statements to the Board of Directors.

These financial statements have been audited by the Corporation's auditor, the Auditor General of Canada, and his report is included herein.

Jean Pierre Sabourin
President and Chief Executive Officer

Johanne R. Lanthier
Vice-President, Finance

AUDITOR'S REPORT

TO THE MINISTER OF FINANCE

I have audited the balance sheet of the Canada Deposit Insurance Corporation as at March 31, 1997 and the statements of income and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Deposit Insurance Corporation Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 2, 1997

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1997	1996
Cash and short-term investments (Note 4)	148,716	292,985
Premiums and other accounts receivable	3,996	11,700
Capital assets	1,569	1,655
	154,281	306,340
Loans and claims receivable (Notes 5 and 7)	693,123	902,524
	847,404	1,208,864

LIABILITIES	1997	1996
Accounts payable	12,596	28,425
Provision for guarantees (Notes 6 and 7)	645,941	691,271
Provision for insurance losses (Notes 3 and 7)	500,000	150,000
Loans from the Consolidated Revenue Fund (Note 8)	865,047	1,640,141
	2,023,584	2,509,837
Deficit, end of year	(1,176,180)	(1,300,973)
	847,404	1,208,864

Approved by the Board:

GRANT L. REUBER
Director

H. GARFIELD EMERSON
Director

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

STATEMENT OF INCOME AND DEFICIT
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1997	1996
Revenues		
Premiums	546,293	537,742
Interest on cash and short-term investments	10,433	9,134
Other revenue	4,192	5,677
	560,918	552,553
Expenses		
Interest on loans from the Consolidated Revenue Fund	84,835	121,917
Adjustment to provisions for loss (Notes 3 and 7)	333,713	(29,603)
Recovery of amounts previously written off		(3,910)
Operating expenses	13,881	13,961
Intervention expenses	3,402	3,573
Other interest	294	452
	436,125	106,390
Net income	124,793	446,163
Deficit, beginning of year	(1,300,973)	(1,747,136)
Deficit, end of year	(1,176,180)	(1,300,973)

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1997	1996
Operating activities		
Net income	124,793	446,163
Non-cash items included in net income		
Adjustment to provisions for loss	333,713	(29,603)
Other	590	579
Net purchase of capital assets	(504)	(420)
Payment of guarantees	(66,680)	(341,940)
Loans disbursed	(73,238)	(48,638)
Loans recovered	180,946	103,648
Claims paid	(42,133)	
Claims recovered	181,462	643,974
Decrease in working capital	(11,218)	(3,592)
Cash provided by operating activities	627,731	770,171
Financing activities		
Loans from the Consolidated Revenue Fund		
Advances	100,000	250,000
Repayments	(872,000)	(783,000)
Cash used in financing activities	(772,000)	(533,000)
Cash and short-term investments		
(Decrease) increase during the year	(144,269)	237,171
Balance, beginning of year	292,985	55,814
Balance, end of year	148,716	292,985

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997

1. Authority and objective

The Corporation was established in 1967 by the *Canada Deposit Insurance Corporation Act* (the *CDIC Act*). It is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

The objects of the Corporation are to provide insurance against the loss of part or all of deposits in member institutions, to be instrumental in the promotion of standards of sound business and financial practices for member institutions, and to promote and otherwise contribute to the stability of the financial system in Canada. These objects are to be pursued for the benefit of depositors of member institutions and in such manner as will minimize the exposure of the Corporation to loss.

The Corporation has the power to do all things necessary or incidental in the furtherance of its objects, including acquiring assets from, and providing guarantees or loans to, member institutions. Among other things, it may make or cause to be made inspections of member institutions, make standards of sound business and financial practices, and act as liquidator, receiver or inspector of a member institution or a subsidiary thereof.

2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with generally accepted accounting principles. These financial statements do not reflect the assets, liabilities or operations of failed member institutions in which the Corporation has intervened.

Use of estimates

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles and necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The more significant areas requiring the use of estimates are: (i) the allowance for loss on loans and claims receivable, (ii) the provision for guarantees, and (iii) the provision for insurance losses.

The Corporation reviews these estimates annually. Actual losses, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties including:

- The ability of the Corporation to recover its claims and loans receivable based on prevailing economic trends and expectations as to future developments.
- The Corporation's ability to recover its claims and loans receivable either by maximizing net recoveries from the sale of assets held by liquidators and agents, or through successful lawsuits as appropriate against relevant parties of failed member institutions.
- The extent to which the Corporation will be called upon to honour guarantees provided to member institutions and others.
- The timing and extent of losses the Corporation will incur as a result of future failures of member institutions. The provision for insurance losses is determined by assessing a wide variety of possible outcomes. As such, the provision is based on historical experience, on market perceptions, on legal and regulatory developments, on prevailing economic trends and on expectations as to future developments, and accordingly involves considerable judgement.

The risk of deviation from the Corporation's estimates varies in proportion to the length of the estimation period and the potential volatility of the underlying assumptions. In the event that ultimate losses do vary from the current estimates, the Corporation could recommend to the Governor in Council that the annual premium charged to member institutions be increased or decreased, depending on the situation. Also, the Corporation has the authority to borrow up to $6 billion from the capital markets and from the Consolidated Revenue Fund to finance its needs as appropriate.

Short-term investments

The Corporation maintains sufficient liquidity in its investment portfolio to meet general operating requirements as well as borrowing obligations. These investments, consisting of marketable securities and term deposits, are carried at cost as they are intented to be held to maturity.

Loans receivable

The Corporation may make loans to member institutions and others. The main purpose of providing these loans is to facilitate a resolution of the financial difficulties of member institutions. The terms and conditions of these loans provide for repayment of principal and, as recovery of the cost of providing loans, the Corporation charges interest. To the extent interest revenue is recorded in the accounts, it is included in other revenue.

Claims receivable

Claims against member institutions arise from the subrogation of the rights and interests of depositors to the extent of the amount of the payment made by the Corporation to insured depositors. In addition, the Corporation asserts claims in respect of loans made to member institutions in liquidation. The Corporation does not accrue and/or record any interest revenue on its claims receivable.

Allowance and provisions for loss

In its financial statements, the Corporation records the following allowance and provisions for loss:

Allowance for loss on loans and claims receivable—The allowance for loss on loans and claims receivable reflects the Corporation's best estimate of losses in respect of loans and claims receivable. The allowance is established by assessing the anticipated results of the asset disposition strategies and forecasted payments to creditors based on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

Loans and claims receivable are written off against the allowance, in full or in part, when there is a reasonable doubt as to realization. When the Corporation recovers amounts previously written off, these are recorded as a recovery of amounts previously written off.

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

Provision for guarantees—In order to facilitate the resolution of financial difficulties of member institutions, the Corporation may provide guarantees. The provision for guarantees is determined by estimating future cash payments required under these guarantees.

Provision for insurance losses—The provision for insurance losses represents the Corporation's best estimates of future losses it will incur as a result of insuring deposits of member institutions.

The provision is established by: (i) assessing the aggregate risk of member institutions based on the Corporation's specific knowledge of its members, (ii) providing for the risk of loss relating to insured deposits by using a market-based composite risk-weighting system, and (iii) applying the present value of loss experience in past member institution failures during the preceding seven years.

The market-based composite risk-weighting system is affected by two factors: (i) the credit ratings of member institutions; and (ii) the market spreads between corporate bond issues and benchmark bond issues of the Government of Canada for comparable terms.

Changes in the various provisions for loss that result from annual estimations for financial reporting purposes are recognized as an adjustment to the provisions for loss in the period in which the changes occur.

Premium revenue

Premiums are are based on the amount of insured deposits held by member institutions as at April 30 of each year. Premiums are recorded annually based on a Return of Insured Deposits from member institutions, which is due July 15 of each year. Premiums are payable in two equal instalments on July 15 and December 15.

Other revenue

The Corporation charges interest on loans made to member institutions and others. Interest continues to accrue on loans but is not recognized in the accounts when, in the Corporation's opinion, there is a reasonable doubt as to collectibility of the interest. In such cases, interest payments received are recognized as a reduction of the loan balance until such time as the loans are retired. Subsequent payments are recognized as other revenue on a cash basis.

In some cases, amounts recovered from the estates of member institutions (claims receivable) exceed the amount claimed. These amounts are also recorded as other revenue on a cash basis.

3. Change in accounting estimate

During the year, the Corporation enhanced its methodology for estimating the amount of the provision for insurance losses. This enhancement is part of the continuing process of estimating and accounting for insurance losses that the Corporation will incur.

As a result of this change in methodology, the estimate for the provision for insurance loses has increased to $500 million as at March 31, 1997 from $150 million as at March 31, 1996, as reflected in Note 7. If this methodology had been available to estimate the amount of the provision last year, the provision, at that time, would have been $650 million.

Pursuant to the 1996 amendments to the *CDIC Act*, the Corporation began developing a Premium By-law which, once passed, will establish a system for differential premiums. Member institutions will be rated by category and each category will have a different premium rate. As a result of developing the differential premium system, the Corporation has better information and analytical tools with which to assess its overall risk of loss resulting from insuring deposits in member institutions. Further enhancements to the methodology for estimating insurance losses will be made once the system for differential premiums is complete.

4. Cash and short-term investments

	1997	1996
	(in thousands of dollars)	
Bankers' acceptances	102,201	126,257
Bearer deposit notes	22,197	82,080
Term deposits	11,118	37,000
Commercial paper	12,668	9,736
Promissory notes		38,069
	148,184	293,142
Cash	532	(157)
Total	148,716	292,985

The short-term investments have a weighted average effective yield of 3.11% (1996—5.17%) and have a weighted average term to maturity of 25 days (1996—32 days).

5. Loans and claims receivable

	1997	1996
	(in thousands of dollars)	
Loans receivable	433,883	567,091
Allowance for loss	(18,100)	(45,800)
Net loans receivable	415,783	521,291
Claims receivable	333,740	478,933
Allowance for loss	(56,400)	(97,700)
Net claims receivable	277,340	381,233
Total	693,123	902,524

Loans

The loans receivable are repayable on demand and bear interest at floating rates determined in accordance with formulas based either on prime rate or the rate for 90-day Treasury Bills. No interest revenue was recorded on existing loans receivable as the criteria for interest revenue recognition on the loans were not met. No new loans were made during the year.

Claims receivable

During the year, Security Home Mortgage Corporation was placed in liquidation, and the Corporation paid $42 million to insured depositors.

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

6. Provision for guarantees

In the course of business, the Corporation provides various guarantees to member institutions and others.

In order to facilitate the resolution of member institutions in financial difficulty, the Corporation provided deficiency coverage guarantees. These guarantees provide for payment of a portion of the principal and income losses incurred on eligible assets acquired by third parties. The guarantees will remain in force on a diminishing basis until the year 2002.

The Corporation also provided collaterized guarantees to the investors of distress preferred shares issued by Adelaide Capital Corporation, a former member institution. These shares are to be redeemed on or before December 1999, at which time the Corporation may be called upon to honour its guarantees.

The nominal amount of outstanding guarantees provided by the Corporation is $2.4 billion as at March 31, 1997 (1996—$2.9 billion) and the provision for guarantees as at March 31, 1997 is $645.9 million (1996—$691.3 million). The nominal amount represents the maximum exposure of the Corporation with respect to the guarantees provided. The nominal amount is not representative of the amount the Corporation expects to pay to third parties to meet its obligations under these guarantees.

7. Allowance and provisions for loss

The following table is a continuity schedule of the allowance for loss on loans and claims receivable, the provision for guarantees and the provision for insurance losses as at March 31, 1997 with corresponding totals as at March 31, 1996.

	1997					1996
	Loans receivable	Claims receivable	Guarantees	Insurance losses	Total	Total
	(in thousands of dollars)					
Beginning of period	45,800	97,700	691,271	150,000	984,771	1,658,483
Payments			(66,680)		(66,680)	(341,940)
Write-offs	(30,000)	(1,363)			(31,363)	(302,169)
Adjustment to provisions for loss	2,300	(39,937)	21,350	(100,000)	(116,287)	(29,603)
Change in accounting estimate				450,000	450,000	
End of period	18,100	56,400	645,941	500,000	1,220,441	984,771

The allowance and provisions for loss are subject to measurement uncertainty. As such, actual losses may differ significantly from these estimates.

8. Loans from the Consolidated Revenue Fund

Pursuant to 1996 amendments to the *CDIC Act*, the Corporation may borrow from sources other than the Consolidated Revenue Fund. The total borrowings of the Corporation may not exceed $6 billion.

As at March 31, 1997, the Corporation has $865 million in outstanding loans from the Consolidated Revenue Fund including accrued interest of $10 million (March 31, 1996—$1,640 million, including accrued interest of $13 million).

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

The Corporation's risk management policy required that a minimum of 80% of the debt portfolio be matched to future cash flows as to timing and amount. At March 31, 1997, the portfolio is fully matched. The loans bear interest at various fixed rates ranging from 5.87% to 7.33% (1996—5.87% to 7.33%) and the principal is repayable according to the following schedule:

Fiscal year	Amount (in millions of dollars)
1997-98	460
1998-99	395
Accrued interest as at March 31, 1997	10
	865

9. Financial instruments

Credit risk

The Corporation is subject to credit risk from its holdings of short-term investments. Credit risk is minimized by investing in high credit-quality financial institutions or in short-term, high quality debt securities, and by limiting the amount invested in any one counterparty.

All of the loans and claims receivable relate to troubled or failed member institutions. The Corporation's credit risk exposure relating to loans receivable is directly impacted by these entities' ability to generate cash flows sufficient to meet their obligations to the Corporation as they become due. Realizations of claims receivable is largely dependent on the credit quality or value of assets held by the failed member institutions. The value of a significant portion of the remaining assets is dependent on real estate markets. As such, the Corporation is exposed to significant concentrations of credit risk arising from the real estate industry.

Fair value

No active or liquid market exists in which the Corporation's most significant financial assets and liabilities could be traded. Where no market exists for financial instruments, fair value estimates are based on judgements regarding current and future economic conditions and events, the risk characteristics of the instruments, and other factors. The estimates of fair value discussed below are made as at March 31, 1997 and involve uncertainties and matters of significant judgement. Changes in assumptions could materially affect the estimates.

The book value of cash and short-term investments, premiums and other accounts receivable and accounts payable approximate their fair value because of their short-term to maturity.

The book value of loans and claims receivable approximates their fair value as it represents the Corporation's best estimate of the amounts to be realized based on asset disposition strategies and forecasted repayments on account of loans and claims receivable. The Corporation's estimates are based on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

The fair value of the provision for guarantees is not readily determinable due to the uncertain timing of future payments, but in any case, fair value would be less than book value, which has been determined without reference to discounting for the time value of money.

The book value of the provision for insurance losses approximates its fair value as it represents the Corporation's best estimate of the future claims to be paid to insured depositors and related expenses.

The fair value of the loans from the Consolidated Revenue Fund (Note 8) is $890 million (1996—$1,651 million). The fair value is estimated based on the present value of contractual cash flows discounted at the rate currently available to Crown corporations for debt with similar remaining terms to maturity. No provision has been made for early repayment penalties as the Corporation intends to settle the loans in accordance with their original terms.

10. Income taxes

The Corporation is subject to federal income tax and has losses that can be carried forward to reduce future years' earnings for tax purposes.

Such losses total $1,105 million and expire as follows:

Year	Amount (in millions of dollars)
1998	141.8
1999	224.1
2000	224.6
2001	96.4
2002	202.4
2003	125.5
2004	90.4
	1,105.2

11. Contingent liabilities

The Corporation is involved in a number of judicial actions arising in the normal course of operations. Although the final outcome with respect to claims and legal proceedings pending at March 31, 1997 cannot be predicted with certainty, in the opinion of the Corporation, none of these, individually or in the aggregate, would result in liability that would have a significant adverse effect on the financial position of the Corporation. Any impact of such matters will be reflected in the period in which the matter becomes determinable.

CANADA DEPOSIT INSURANCE CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

12. Insured deposits

Deposits insured by the Corporation, on the basis of returns received from member institutions as described in Note 2, Premium revenue, as at April 30, 1996 and 1995, were as follows:

	1996	1995
	(in billions of dollars)	
Federal Institutions	314	307
Provincial Institutions	14	16
	328	323

In accordance with paragraph 21 (1) (b) of the *CDIC Act*, the premium rate for the premium year 1997 was set at one-sixth of one percent of insured deposits, the same rate as in 1996.

13. Comparative figures

Certain of the 1996 figures have been reclassified to conform with the presentation adopted for 1997.

CANADA DEVELOPMENT INVESTMENT CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Canada Development Investment Corporation are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with that in the financial statements.

CDIC maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial records are reliable, form a proper basis for the preparation of financial statements and that CDIC's assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this report principally through its audit committee, consisting solely of outside directors. The audit committee reviews CDIC's annual consolidated financial statements and reports its findings to the board for their consideration and approval. The audit committee also meets with management and with the shareholder's auditors to discuss auditing matters and financial reporting issues. Due to its size, and as permitted by Order in Council, CDIC is exempt from the requirement to carry out internal audits.

These consolidated financial statements have been audited by the shareholder's auditors, the Auditor General of Canada and KPMG, whose report is presented separately.

Benita M. Warmbold
Executive Vice-President
Canada Development Investment Corporation

AUDITORS' REPORT

TO THE MINISTER OF FINANCE

We have audited the consolidated balance sheet of Canada Development Investment Corporation as at December 31, 1996 and the consolidated statements of income and accumulated deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the corporation and its wholly-owned subsidiaries.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada

KPMG
Chartered Accountants

Toronto, Canada
March 4, 1997

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1996
(with comparative figures for 1995)
(in thousands)

ASSETS	1996	1995
Current assets		
Cash and short-term investments	35,635	31,975
Cash on deposit in the Consolidated Revenue Fund (Note 4)	73,560	73,560
Cash restricted as to use (Note 7 (c))	10,000	10,000
Receivables	271	326
	119,466	115,861
Investments		
Non-consolidated subsidiaries, at cost (Note 5)	4,519	7,025
Varity shares (Note 2)		17,175
	4,519	24,200
Other assets		206
	123,985	140,267

LIABILITIES AND SHAREHOLDER'S EQUITY	1996	1995
Current liabilities		
Accounts payable and accrued liabilities (Note 7 (b))	10,535	9,251
Notes payable to Atomic Energy of Canada Limited (Notes 5 (b) and 7 (c))	14,519	17,025
	25,054	26,276
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—Unlimited number of common shares		
Issued and fully paid—101 common shares	1	1
Contributed surplus (Note 6)	743,184	743,184
Accumulated deficit	(644,254)	(629,194)
	98,931	113,991
Contingencies (Notes 2, 5 (a) and 7)		
	123,985	140,267

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

DON SHAVER
Director

WILLIAM ROSS
Director

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

CONSOLIDATED STATEMENT OF INCOME AND ACCUMULATED DEFICIT
YEAR ENDED DECEMBER 31, 1996
(with comparative figures for 1995)
(in thousands)

	1996	1995
Corporate operations		
Interest earned on short-term investments	1,812	3,371
Dividend and other income	2,874	2,206
	4,686	5,577
Corporate and divestiture expenses	(1,978)	(3,810)
Corporate income, net	2,708	1,767
Gain on redemption of Varity shares (Note 2)	14,075	
Provision for waste disposal costs (Note 7 (b))	(593)	(152)
Gain on sale of Cameco shares (Note 2)		24,122
Net income	16,190	25,737
Accumulated deficit, beginning of year	(629,194)	(644,931)
Dividends	(31,250)	(10,000)
Accumulated deficit, end of year	(644,254)	(629,194)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996
(with comparative figures for 1995)
(in thousands)

	1996	1995
Operations		
Cash provided by corporate operations (Note 8)	3,660	2,311
	3,660	2,311
Financing		
Dividends paid	(31,250)	(10,000)
	(31,250)	(10,000)
Investing		
Proceeds from redemption of Varity shares	31,250	
Proceeds from sale of Cameco shares		88,560
	31,250	88,560
Increase in cash	3,660	80,871
Cash, beginning of year	105,535	24,664
Cash, end of year	109,195	105,535

For purposes of this statement, cash and increase in cash includes cash and short-term investments and cash on deposit in the Consolidated Revenue Fund and excludes cash transactions relating to cash restricted as to use.

The accompanying notes are an integral part of these consolidated financial statements.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996
(All dollar amounts are stated in thousands)

1. The corporation

Canada Development Investment Corporation ("the corporation" or "CDIC") was incorporated in 1982 under the provisions of the *Canada Business Corporations Act* and is wholly-owned by Her Majesty in Right of Canada. The corporation is subject to the *Financial Administration Act* and is an agent of Her Majesty. The corporation is subject to federal and provincial imcome taxes.

2. Activities of the corporation

In 1984, the corporation commenced the disposition of its investments in Massey-Ferguson Limited, now Varity Corporation ("Varity") and Massey-Combines Corporation ("Massey-Combines"), Canadair Limited ("Canadair"), The de Havilland Aircraft of Canada, Limited ("de Havilland") and Canada Eldor Inc. ("CEI") in an orderly fashion. Disposals of the corporation's investments in de Havilland and Canadair were completed in 1986. The remaining investment in Massey-Combines was written off in 1988.

During 1988, the operating assets of CEI were transferred to Cameco Corporation ("Cameco") in exchange for notes and 38.5% investment in Cameco. Through dilution and four secondary share sales, the corporation has now completed the sale of its investment in Cameco. In February, 1995 CEI sold its remaining 3,000,000 common shares for gross proceeds of $92,250. Costs of the transaction were $3,690, resulting in net proceeds of $88,560. Accordingly, CEI realized a gain of $24,122 which is reflected in the financial statements.

Beginning in December 1992, the Government of Canada ("Government") assumed responsibility for payment of certain of CEI's debt which was required to allow CEI to remain within its statutory borrowing authority.

As a result of the sale of the remaining Cameco shares and the assumption of CEI's remaining debt by the Government in 1995, CEI is left for the net cash proceeds from the final sale of Cameco shares as its only significant asset. CEI's remaining significant obligations are the contingencies discussed in Note 7 (b).

During 1988, the corporation acquired the following two subsidiaries from Atomic Energy of Canada Limited ("AECL"):

(a) Nordion International Inc. ("Nordion"); and

(b) Theratronics International Limited ("Theratronics").

In November, 1991 the corporation sold Nordion (see Note 7 (c)).

Pursuant to a directive received from the Government, the corporation acquired during 1989, a 51% interest in Ginn Publishing Canada Inc. ("Ginn Publishing") from Paramount Communications (Canada) Limited. Pursuant to a directive received from the Government, in February, 1994 the corporation sold its interest in Ginn Publishing.

On March 19, 1993 Canada Hibernia Holding Corporation ("CHHC") acquired for no cost an 8.5% interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"). CHHC is a wholly-owned subsidiary of the corporation whose sole purpose is the holding, management, funding and ultimately, disposal of the 8.5% interest in the Hibernia Development Project.

In August, 1996 Varity Corporation redeemed the 1,250,000 Class II preferred shares of Varity held by the corporation for $25.00 per share, plus accrued dividends.

During 1995, the corporation entered into a general conveyance with Cartierville Financial Corporation Inc. ("CFC"), an inactive wholly-owned subsidiary of CDIC, which provided for the transfer of all of the remaining assets and liabilities in CFC to the corporation. CFC has been wound up and dissolved.

In 1995, the Government completed its assessment of the future role of the corporation. As there will not be any significant addition to the corporation's work load in the near future, CDIC commenced the winding down of its operations.

The Board of Directors of the corporation is continuing to develop approaches to the divestiture of the corporation's remaining investments.

The Board of Directors have taken actions to reduce operating costs to a minimum as soon as possible. These actions include the termination of the lease of the current office space and the termination of all remaining employees in 1997. An accrual of $1,300 has been provided for in the statement of income to cover any liabilities associated with these actions. The Board of Directors will continue to manage the corporation with assistance of contract emloyees and government officials.

3. Significant accounting policies

(a) Basis of consolidation

The financial statements of CEI, a wholly-owned subsidiary, have been consolidated with those of the corporation.

(b) Investments in non-consolidated subsidiaries

The corporation's investments in subsidiaries acquired with the intention that they be disposed of or privatized in the foreseeable future are considered to be temporary investments and are carried at the lower of cost and net realizable value. If no reliable estimate of net realizable value is available, the investment is carried at cost. The corporation's investment in CHHC is considered to be temporary investment and is accounted for in accordance with this policy.

The corporation's investments in subsidiaries acquired with the intention that they be disposed of or privatized in the foreseeable future and for which the corporation will not benefit from the ultimate gains or losses on disposition are carried at the corporation's proportionate interest in the underlying net book value of the subsidiaries, offset by a liability reflecting the corporation's obligation to forward any proceeds of disposition to another entity. The corporation's investment in Theratronics is accounted for in accordance with this policy.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996—*Continued*

The financial statements of CHHC and Theratronics are attached.

(c) Short-term investments

Short-term investments are valued at cost which approximates fair value due to the short period to maturity.

4. Cash on deposit in the Consolidated Revenue Fund

In April, 1995 CEI deposited $73,560 in a non-interest bearing special purpose account in the Consolidated Revenue Fund ("CRF"). Funds can be drawn out of the account to extinguish any liability of CEI.

5. Investment in non-consolidated subsidiaries

The corporation's investments in subsidiaries are as follows:

	December 31	
	1996	1995
CHHC (a)		
Theratronics (b)	4,519	7,025
	4,519	7,025

(a) CHHC

CHHC was acquired with the intention that it be disposed of in the foreseeable future; accordingly, the corporation accounts for its investment in CHHC as a temporary investment and this investment is not consolidated.

On March 19, 1993 CHHC acquired for no cost an 8.5% working interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. CHHC's sole purpose is the holding, management, funding and ultimately, disposal of the 8.5% interest in the Hibernia Development Project. Pursuant to a Memorandum of Understanding ("MOU") dated June 8, 1993 between the Government, the corporation and CHHC, the Government seeks the approval of Parliament to appropriate the funds necessary for CHHC to honour its obligations to fund the project costs of the Hibernia Development Project. CHHC is dependent on appropriations from the Government to fulfill its obligations.

Appropriations received from the Government by CHHC to fund the costs of the Hibernia Development Project are credited to contributed surplus of CHHC, but are not reflected in these consolidated financial statements as the investment in CHHC is carried at nominal cost.

Pursuant to the MOU, the corporation provides administrative services to CHHC. The aggregate cost of these administrative services are reimbursable to the corporation on commencement of commercial operations from the Hibernia Development Project production proceeds (if any such proceeds remain after payment of other production expenses and charges) or, if applicable, the proceeds from the sale of the working interest or the sale of the shares of CHHC in such manner as may be agreed upon by the corporation and the Minister of Finance.

Costs of the Hibernia Development Project to the production start-up are estimated at $5,819,000, before Government assistance. CHHC's 8.5% share is expected to be approximately $407,000. CHHC's expenditures incurred after March 23, 1993 do not qualify for Government contributions or Government guaranteed limited-recourse loans provided to the other owners of the project.

The Hibernia Development Project is in the development stage. Accordingly, CHHC has no operations until the production stage commences. Recovery of CHHC's capitalized costs relating to the Hibernia Development Project depends upon (i) the sale of the working interest for an amount in excess of the costs capitalized, or (ii) the successful completion of construction and achievement of commercial production of oil at prices sufficient to recover operating costs and capitalized costs.

(b) Theratronics

The share purchase agreement between AECL and the corporation requires the corporation to pay to AECL the fair market value of the shares of Theratronics. The agreement also specifies that the fair market value will be estimated as at the date of transfer, but will subsequently be adjusted to an amount equal to the price ultimately received by the corporation in the subsequent privatization sale of Theratronics. Furthermore, the agreement specifies that the corporation is not required to make payment of the purchase price to AECL until 60 days after the privatization sale.

Accordingly, AECL will ultimately receive the full proceeds realized upon privatization of Theratronics, less the corporation's expenses associated with the privatization.

Thus, while the corporation has title to the shares of Theratronics and executive management control over its operations prior to its privatization, the corporation did not acquire the normal risks and benefits associated with share ownership. Accordingly, the corporation has recorded its investment in Theratronics at an amount equal to the net book value of Theratronics at December 31, 1996 and 1995, with an off-setting non-interest bearing note payable to AECL, and has not recognized any income or loss on this investment.

6. Contributed surplus

Beginning in December, 1992 the Government assumed responsibility for payment of certain of CEI's debt which was required to allow CEI to remain within its statutory borrowing authority. The extinguishments of the obligations to repay these debts have been accounted for as contributed surplus.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996—*Continued*

7. Contingencies

(a) On December 23, 1986 the corporation sold its investment in Canadair Limited to Bombardier-Canadair Inc. The corporation and the Government have agreed to indemnify Bombardier-Canadair Inc. and Canadair Limited for specified product related claims for fifteen years from December 23, 1986 for which insurance coverage is unavailable or economically impracticable to obtain. Reasonable estimates of the effects, if any, of this indemnity cannot be made at this time. Such amounts will be recognized in future years, as appropriate, when reasonable estimates can be made as to the likely amount, if any, which will ultimately be paid pursuant to this indemnity. No amounts have been paid to date under this indemnity.

(b) Under the terms of the agreement between CEI and Cameco, CEI and Cameco agreed on a formula for sharing any future joint costs, excluding normal operating costs, related to certain specified existing wastes accumulated by CEI to October 5, 1988, the date of transfer of CEI's operations and assets to Cameco. Cameco assumed liability for the first $2,000 of joint costs. The next $98,000 in joint costs will be shared 23/98ths by Cameco, 75/98ths by CEI. CEI assumed liability for joint costs in excess of $100,000.

Alternatives for the economic disposal for existing wastes continue to be pursued by Cameco. The majority of the joint costs under the indemnity provisions of the agreement relate to existing waste material located in two sites which are closed and have not accepted further wastes since October 5, 1988. In 1986, the federal government put the Eldorado decommissioning program on hold and formed a Siting Task Force to recommend a process for low level radioactive waste disposal site selection. The Siting Task Force delivered its final report to the Government in November, 1995 having reached a community agreement in principle to construct a low level radioactive waste disposal facility in the Town of Deep River, Ontario, Canada. The federal government announced its intentions to move forward with negotiations with the Town of Deep River in July, 1996. While discussions may continue with the Town of Deep River in 1997, the initial community agreement has been declared null and void by the Town and the offer to host the facility has been withdrawn. Any new agreement negotiated to locate a low level radioactive waste disposal facility in Deep River would require approval through a referendum by the people of the Town and approval by the federal government. The ultimate magnitude of the joint costs is largely dependent on the outcome of the discussions between the federal government and the Town of Deep River, remediation standards that will be set by the Atomic Energy Control Board and the technologies that may be available to meet these standards at the time they are determined.

CEI accrues for these costs on an annual basis, based on reliable estimates provided by Cameco. As at December 31, 1996 CAMECO estimates joint costs to be $12,086 (1995—$11,312) of which CEI's share is $7,719 (1995—$7,127). Accordingly, CEI has accrued this amount in accounts payable and other liabilities as its liability that is subject to reasonable estimation at this time. It is likely that CEI will incur further liability for joint costs to be incurred in the future; however, the ultimate magnitude of this liability is not reasonably estimable at this time. To December 31, 1996 actual total joint costs incurred are $3,528 (1995—$2,595), of which CEI's share is $1,170 (1995—$456).

(c) In November, 1991 the corporation sold its investment in Nordion for proceeds of $165,000.

As part of the purchase and sale agreement, the corporation indemnified the purchaser for certain representations contained in the agreement of purchase and sale. The indemnity is subject to a deductible of $1,000 and an aggregate limit of $10,000 and expired two years after the date of the sale. $10,000 of the proceeds received from the sale are held in the CRF and is shown as "Cash Restricted as to use" in these financial statements, for use in satisfying any claims made under this indemnity.

Any balance remaining of the $10,000 withheld to cover the indemnity, net of claims, will be paid to AECL on settlement of the outstanding claims.

The corporation is a named party, together with AECL and the Attorney General of Canada, in litigation commenced by the purchaser, MDS Health Group Limited et al ("MDS"). MDS is seeking a mandatory injunction requiring AECL to complete the construction and commissioning of a new isotope reactor. Alternate relief claimed in the action includes the rescinding of the original purchase, damages of $300,000, pre and post judgment interest and costs.

In July, 1996 an out-of-court settlement was reached. The settlement stipulates that two new isotope production reactors and related processing facilities will be constructed and owned by Nordion and operated by AECL. The Government of Canada will contribute $5,000 and provide a fully repayable, interest free $100,000 loan that will be used to help finance the cost of the two new reactors. AECL is to provide $12,500 to the project. Minutes of settlement have been signed and the final release from the lawsuit will be released from escrow once MDS receives the $5,000 contribution from the Government.

(d) CEI is a co-defendant with Cameco in a lawsuit brought on behalf of certain members of Eldorado Pension Plan. The lawsuit is based on the fact that approximately $15,000 of plan expenses and employer contributions was funded from the plan surplus rather than from the co-defendants.

Affidavits have been exchanged and some cross examinations have taken place, but the cross examinations have not yet been completed. As such, many of the factual and legal issues have not yet been determined.

The co-defendants have a number of defences which continue to be vigorously pursued. Management remains of the opinion, after review of the facts with counsel, that the outcome of this case will not have a material financial impact on CEI.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996—*Concluded*

(e) The Government of Canada has indicated its intention to introduce legislation that would subject the corporation to the Large Corporations Tax provisions.

The corporation cannot presently estimate the impact, if any, of the Large Corporations Tax provisions; however, any amount will be charged to the statement of income in the year in which the legislation is passed by Parliament.

8. Cash provided by corporate operations

	1996	1995
Corporate income, net	2,708	1,767
Decrease in accounts receivable and other assets	250	239
Increase in accrued liabilities	691	268
Net decrease in corporate capital assets	11	37
Cash provided by corporate operations	3,660	2,311

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1

CANADA HIBERNIA HOLDING CORPORATION

AUDITORS' REPORT

TO THE SHAREHOLDER OF CANADA HIBERNIA HOLDING CORPORATION

We have audited the balance sheet of Canada Hibernia Holding Corporation as at December 31, 1996 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

KPMG
Chartered Accountants

Toronto, Canada
March 4, 1997

BALANCE SHEET DECEMBER 31, 1996
with comparative figures for 1995
(in thousands of dollars)

ASSETS	1996	1995
Investment in Hibernia Development Project and Hibernia Management and Development Company Ltd.	357,724	299,569
	357,724	299,569

LIABILITIES AND SHAREHOLDER'S EQUITY	1996	1995
Current liabilities		
Accrued liabilities	3,916	7,334
Total current liabilities	3,916	7,334
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—Unlimited number of common shares		
Issued and fully paid—1 common share		
Contributed surplus	355,767	293,434
Deficit	(1,959)	(1,199)
Total shareholder's equity	353,808	292,235
Commitment and contingencies (Note 3)		
	357,724	299,569

See accompanying notes to financial statements.

Approved by the Board:

DON SHAVER
Director

WILLIAM ROSS
Director

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1—*Continued*

CANADA HIBERNIA HOLDING CORPORATION—*Continued*

STATEMENT OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31, 1996
with comparative figures for 1995
(in thousands of dollars)

	1996	1995
Expenses		
Capital and large corporation tax	760	690
Net loss for the year	760	690
Deficit, beginning of year	1,199	509
Deficit, end of year	1,959	1,199

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996
with comparative figures for 1995
(in thousands of dollars)

	1996	1995
Operating activities		
Loss for the year	(760)	(690)
Increase (decrease) in accrued liabilities	(3,418)	94
Cash used by operating activities	(4,178)	(596)
Investing activities		
Investment in Hibernia Development Project	(58,155)	(115,586)
	(58,155)	(115,586)
Contributed capital		
Parliamentary appropriations from Canada	62,333	116,182
	62,333	116,182
Change in cash		
Cash, beginning of year		
Cash, end of year		

See accompanying notes to financial statements.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1—*Concluded*

CANADA HIBERNIA HOLDING CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996
(All dollar amounts are stated in thousands)

1. Canada Hibernia Holding Corporation

Canada Hibernia Holding Corporation (the "company" or "CHHC") (formerly 2875055 Canada Inc.) was incorporated under the provisions of the *Canada Business Corporations Act* on December 4, 1992. On March 22, 1993 the company was acquired by Canada Development Investment Corporation ("CDIC"). Prior to March 22, 1993 the company was inactive. The company is subject to the *Financial Administration Act*.

On March 19, 1993, the company acquired for no cost an 8.5% working interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"). CHHC's sole purpose is the holding, management, funding and ultimately, disposal of the 8.5% interest in the Hibernia Development Project. Pursuant to a Memorandum of Understanding ("MOU") dated June 8, 1993 between the Government of Canada ("Government"), CDIC and CHHC, the Government seeks the approval of Parliament to appropriate the funds necessary for CHHC to honour its obligations to fund the project costs of the Hibernia Development Project. CHHC is dependent on appropriations from Government to fulfill its obligations.

The MOU also requires CDIC to provide administrative services to CHHC. The aggregate cost of these administrative services are reimbursable to CDIC on commencement of commercial operations from the Hibernia Development Project production proceeds (if any such proceeds remain after payment of other production expenses and charges), or if applicable, the proceeds from the sale of the working interest or the sale of the shares of the company in such manner as may be agreed upon by CDIC and the Minister of Finance.

HMDC is a company formed to act as agent for the participants in the Hibernia Development Project. All project expenditures, other than those relating to the transportation of oil from the project, are charged to the Joint Account which is owned by the participants in proportion to their working interest. The Joint Account is funded directly by the participants and by Federal and Provincial Government Contributions.

The Hibernia Development Project is in the development stage. Accordingly, CHHC has no operations until the production stage commences. Recovery of CHHC's capitalized costs relating to the Hibernia Development Project depends upon (i) the sale of the working interest for an amount in excess of the costs capitalized, or (ii) the successful completion of construction and achievement of commercial production of oil at prices sufficient to recover operating costs and capitalized costs.

2. Significant accounting policies

(a) Investment in the Hibernia Development Project and Hibernia Management and Development Company Ltd.:

Investment in HMDC is accounted for on the cost method. Development costs charged to the Joint Account subsequent to the date of acquisition of the working interest are capitalized. Development costs include costs of engineering, construction and installation of production facilities comprised of a Gravity Based Structure and Topsides facilities. All of the company's development activities are conducted jointly with the other owners.

(b) Contributed surplus

Appropriations received from the Government to fund the costs of the Hibernia Development Project are credited to contributed surplus.

(c) Administrative costs

The costs incurred by CDIC in connection with the administration of the company total $1,957 to date and have not been accrued as a liability or charged as an expense in these financial statements because the method of reimbursement of CDIC for these costs is contingent on certain future events which are uncertain.

3. Commitment and contingencies

During 1993, the company acquired an 8.5% interest in the Hibernia Development Project. The company's obligations, in connection with the acquisition, relate only to project costs incurred after January 20, 1993. Costs of the Hibernia Development Project to the production start-up are estimated at $5,819,000, before government assistance and are for production facilities only, exclusive of costs for drilling of wells and the Hibernia transportation system. The company's 8.5% share is expected to be approximately $407,000. The company's expenditures incurred after March 23, 1993 do not qualify for government contributions or government guaranteed limited-recourse loans provided to the other owners of the project.

The company became a participant in the Hibernia Development Project effective from the day of the first billion dollars of charges to the Joint Account. The determination of the first billion dollars of charges to the Joint Account and required owner contributions involves interpretations for the treatment of charges, credits and government contributions under the Hibernia Owner Agreements. Matters of interpretation have yet to be resolved between Gulf Canada Resources Limited and certain project owners. The outcome of these matters are presently not determinable and thus, the potential impact on the company's required contributions to the project is presently not determinable.

During 1995, the company, together with one of the other participants, entered into agreements providing for the time charter and operation of a tanker for the transportation of its oil from the project. The company's share of annual fixed obligations is approximately $5,800. Payments are expected to commence in November, 1997 for an initial term of ten years.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2

THERATRONICS INTERNATIONAL LIMITED

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Theratronics International Limited as at December 31, 1996 and the statements of earnings, retained earnings and changes in financial position, for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the company that have come to our notice in the course of our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the charter and by-laws of the company and any directives given to the company.

KPMG
Chartered Accountants

Ottawa, Canada
February 4, 1997

BALANCE SHEET AS AT DECEMBER 31, 1996
(with comparative figures for 1995)
(in thousands of dollars)

ASSETS	1996	1995
Current assets		
Cash	340	
Accounts receivable (Note 2)	5,021	7,111
Inventories (Note 3)	8,480	9,746
Prepaid expenses	380	302
	14,221	17,159
Capital assets (Note 4)	3,964	3,813
In-reactor cobalt inventory	1,956	1,731
	20,141	22,703

LIABILITIES AND SHAREHOLDER'S EQUITY	1996	1995
Current liabilities		
Bank indebtedness		188
Accounts payable and accrued liabilities	9,684	7,900
Advances and deferred revenue	4,431	5,994
	14,115	14,082
Long-term liabilities (Note 5)	1,507	1,596
SHAREHOLDER'S EQUITY		
Share capital (Note 6)	9,588	9,588
Retained earnings (deficit)	(5,069)	(2,563)
	4,519	7,025
Commitments (Note 10)		
Contingent liabilities (Note 12)		
	20,141	22,703

See accompanying notes to financial statements.

On behalf of the Board:

WARD PITFIELD
Director

BENITA WARMBOLD
Director

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2—*Continued*

THERATRONICS INTERNATIONAL LIMITED—*Continued*

STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1996
(with comparative figures for 1995)
(in thousands of dollars)

	1996	1995
Sales	36,402	36,619
Cost of goods sold	27,097	27,663
	9,305	8,956
Operating expenses		
Selling and marketing	3,187	3,521
Administration	5,336	4,741
Research and development	3,288	2,965
	11,811	11,227
Net loss (Note 6)	(2,506)	(2,271)

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996
(with comparative figures for 1995)
(in thousands of dollars)

	1996	1995
Cash provided by (used in):		
Operations		
Net loss	(2,506)	(2,271)
Depreciation	909	866
	(1,597)	(1,405)
Change in non-cash operating working capital (Note 8)	3,274	432
	1,677	(973)
Financing		
Decrease in long-term liabilities	(89)	(756)
Investments		
Net acquisition of capital assets	(1,060)	(915)
Increase (decrease) in cash	528	(2,644)
Cash (bank indebtedness), beginning of year	(188)	2,456
Cash (bank indebtedness), end of year	340	(188)

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1996
(with comparative figures for 1995)
(in thousands of dollars)

	1996	1995
Retained earnings (deficit), beginning of year	(2,563)	(292)
Net loss	(2,506)	(2,271)
Retained earnings (deficit), end of year	(5,069)	(2,563)

See accompanying notes to financial statements.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2—*Continued*

THERATRONICS INTERNATIONAL LIMITED—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

Theratronics International Limited ("Theratronics") is incorporated under the *Canada Business Corporations Act* and is subject to the *Financial Administration Act*. The primary business of Theratronics is the manufacture, sales and service of radiotherapy and related equipment to hospitals and medical institutions around the world.

Theratronics was incorporated initially as a wholly-owned subsidiary of Atomic Energy of Canada Limited ("AECL"). The Minister of State for Privatization announced in 1988 the government's intention to sell the Company to the private sector. Assets and liabilities were transferred from AECL to the Company in exchange for 10,000 common shares. Since the transaction occurred between companies under common control, a value of $9,588 was assigned to capital stock for accounting purposes representing the net book value of the assets and liabilities transferred. The effective date of these transactions was July 1, 1988. As of September 30, 1988, all of the outstanding common shares were sold to Canada Development Investment Corporation ("CDIC"). No assessment of the potential impact of privatization has been made or reflected in the financial statements.

1. Significant accounting policies

(a) Capital assets

Capital assets are initially recorded at cost and depreciated on a straight-line basis over the estimated useful life of the underlying assets, as follows:

Asset	Basis
Site Service	5 to 15 years
Building	20 years
Machinery, equipment, and leased equipment	3 to 10 years

(b) Inventories

Finished goods inventories including service inventories are valued at the lower of cost and estimated net realizable value. Raw materials, work in process, and cobalt 60 are valued at the lower of cost and replacement cost. Cost is primarily determined on a standard cost basis and includes material, labour and manufacturing overhead where applicable.

(c) In-reactor cobalt inventory

In-reactor cobalt inventory represents primarily payments for irradiation services performed by AECL to produce cobalt 60. The amounts classified as long-term will not be consumed within the next fiscal year.

(d) Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Company's contributions to the plan are limited to matching the employees' contributions on account of current service and past service buy back limited to federal government services. These payments are charged to income on a current basis and represent the total pension obligations of the Company.

(e) Employee termination benefits

Employees are entitled to specific termination benefits defined under collective agreements and conditions of employment. The charge to income and the liability are recognized in the accounts in the year the benefits become vested.

(f) Warranty provision

A provision is recorded for estimated warranty costs at the time of product sale.

(g) Revenue recognition

Revenue from the sale of radiotherapy units, software and related equipment is generally recognized upon shipment. Revenue from field services is recognized at the time services are rendered. Revenue from service contracts is recognized on a straight-line basis over the term of the contract.

(h) Foreign currency

Assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at the monthly average rates of exchange during the year. Translation gains or losses are included in the determination of earnings.

2. Financial instruments

(a) Risk management activities

The Company operates internationally, thereby exposing the Company to market risks from changes in foreign exchange rates. The Company partially manages these exposures by creating offsetting positions through the use of financial instruments.

(b) Foreign exchange risk management

The Company has entered into forward foreign exchange contracts to hedge its foreign currency exposure on certain export sales. The contracts oblige the Company to sell US dollars in the future at predetermined exchange rates. The contracts are matched with anticipated future sales in foreign currencies. At December 31, 1996 the Company had purchased contracts to sell US $2,700 in the next 10 months at an average exchange rate of $1.333.

(c) Concentrations of credit risk

The Company is exposed to credit-related losses in the event of default by customers and non-performance by counterparties to financial instruments. Credit exposure is minimized by dealing with only creditworthy customers and counterparties or by obtaining insurance or letters of credit in accordance with established credit approval policies. The largest credit exposure to a single customer or counterparty at December 31, 1996 was $852 (1995—$735).

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2—*Continued*

THERATRONICS INTERNATIONAL LIMITED—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

Concentration of accounts receivable credit risk by geographic region is indicated in the following table.

	1996	1995
North America	4,256	2,550
Europe	596	776
Asia	168	2,645
Latin America	7	736
Other	(6)	404
	5,021	7,111

(d) Fair values

The carrying values of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments.

(e) Employee termination benefits

It is not practical to determine the fair value of the long-term liability for employee termination benefits as the timing of the payments is dependent on future events.

(f) Performance guarantees

The Company has letters of guarantee totalling $676 relating to performance guarantees in specific sales agreements. The letters of guarantee will fully expire on February 28, 1998. The Company has accrued $364 in the year for these guarantees. It is not practicable to determine the fair value of these letters of guarantee as there is no market for the guarantees and they were issued without explicit cost.

3. Inventories

	1996	1995
Service inventory	838	1,777
Cobalt 60	2,426	2,138
Manufacturing		
Finished goods	1,157	1,989
Raw materials	1,998	1,724
Work-in-process	2,061	2,118
	8,480	9,746

4. Capital assets

			1996	1995
	Cost	Accumulated depreciation	Net book value	Net book value
Land	69		69	69
Site service	1,281	706	575	652
Building	3,569	3,248	321	246
Machinery and equipment	8,527	6,537	1,990	1,665
Equipment leased to customers	712	200	512	620
Equipment under capital lease	641	144	497	561
	14,799	10,835	3,964	3,813

Cost and accumulated depreciation were $14,012 and $10,199 respectively at December 31, 1995.

5. Long-term liabilities

	1996	1995
Capital lease	258	381
Employee termination benefits	931	905
Deferred revenue	318	310
	1,507	1,596

The company has one manufacturing equipment capital lease. The lease requires an interest payment of 9.6% and expire in 1999. Future minimum payments, by year and in aggregate, consists of the following at December 31, 1996:

1997	154
1998	154
1999	128
Total minimum lease payment	436
Amounts representing interest	(55)
Present value of net minimum lease payments	381
Less current portion included in accounts payable and accrued liabilities	(123)
	258

6. Share capital

The authorized share capital of the Company consists of an unlimited number of no par value common shares with issued and outstanding shares totalling 10,000.

THERATRONICS INTERNATIONAL LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Concluded*

7. Income taxes

As a wholly-owned subsidiary of a Federal Crown Corporation, the Company is not subject to provincial income taxes.

The Company's expected income tax rate is the net Federal statutory rate (including surtax) of 29.12% less the applicable manufacturing and processing deduction of 7%. Since the company has a loss, the effective rate is zero.

The Company has non capital loss carryforwards for income tax purposes of $3,880 ($3,840 in 1995) available to reduce future taxable income and which will begin to expire in 1999 and net capital loss carryforwards of $2,448 ($2,448 in 1995) available to offset taxable capital gains indefinitely. In addition, the Company has differences between the tax and accounting values of its assets for which future deductions are available in the amount of $8,988 ($10,028 in 1995). Of this amount, $3,248 ($3,744 in 1995) relate to the assets of the Company at the date it became subject to income taxes.

The Company has unused investment tax credits of $900 ($700 in 1995) available to reduce taxes payable up to 2001.

8. Operating working capital

The changes in non-cash operating working capital are comprised of:

	1996	1995
Accounts receivable	2,090	5,350
Inventories	1,041	(1,448)
Prepaid expenses	(78)	(97)
Accounts payable and accrued liabilities	1,784	(2,478)
Advances and deferred revenue	(1,563)	(895)
	3,274	432

9. Related party transactions

AECL provides irradiation services to the Company in the normal course of operations. Total purchases of irradiation services in the year were $1,688 ($1,875 in 1995) measured at the contracted amount. At December 31, 1996, $370 ($299 in 1995) of these purchases were included in accounts payable.

10. Commitments

The Company has a commitment, estimated at approximately $18,000 to purchase cobalt 60 from AECL produced at its Chalk River nuclear laboratory to the year 2008.

11. Sales agents' remuneration

During the year ended December 31, 1996 the Company paid sales commissions totalling $2,912, to the following agents: Medtel Pty. Limited, Australia; General Machinery Co. Ltda., Chile; Meditel Medikal Teknik Elektronik Ltd., Turkiye; Meditron S.A. de C.V., El Salvador; Radcons Pty Limited, Australia; Semetron, Estonia; Lactronics S.A., Colombia; NCA Electromedicina, Spain; Alkan Establishment, Egypt; General Electronica Genelectric C.I.A. Ltda., Ecuador; General Medica de Colombia Ltda., Colombia; Kirloskar Theratronics (P) Limited, India; Izinta Trading Co. Ltd., Hungary; Agmeco s.r.o., Czech Republic; CIS (UK) Limited, England; Mundinter, Portugal; Bureautique Communication Organization Ltd., Channel Islands; Gemed Sistemas, Venezuala; Medtechnica Ltd., Israel; Rimpex S.A.R.L., Tunisia; Al Mazroui Medical & Chemical Supplies, United Arab Emirates; J. Gasso Gasso, Dominican Republic.

12. Contingent liability

Medtap grant

The Company received a grant of $350 from the National Research Council in 1995. This funding is required to be repaid based on a percentage of sales if certain conditions are met relating to the commercialization of the resulting technology. The conditions were met in late 1996, and, as a result, $141 was accrued against related technology sales. The remaining portion of the grant is expected to be accrued against 1997 sales, and full repayment of the grant is expected to occur in 1998.

13. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

CANADA LANDS COMPANY LIMITED

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Canada Lands Company Limited have been prepared by management of the Corporation in accordance with generally accepted accounting principles.

Management maintains financial and management reporting systems which include appropriate controls to provide reasonable assurance that the Corporation's assets are safeguarded, to facilitate the preparation of relevant, reliable and timely financial information and to ensure that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

Where necessary, management uses judgement to make estimates required to ensure fair and consistent presentation of this information.

The Board of Directors is composed of six directors, none of whom are employees of the Corporation. The Board of Directors has the responsibility to review and approve the financial statements, as well as overseeing management's performance of its financial reporting responsibilities. An Audit Committee appointed by the Board of Directors of the Corporation has reviewed these statements with management and the auditor and has reported to the Board of Directors. The Board of Directors has approved the financial statements.

The auditor is responsible for auditing the financial statements and has issued a report thereon.

All other financial and operating data included in the Annual Report are consistent, where appropriate, with information contained in the financial statements.

E. Buchholz
President and Chief Executive Officer

B. E. Richardson
Vice President, Chief Financial Officer

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS AND GOVERNMENT SERVICES

I have audited the consolidated balance sheet of Canada Lands Company Limited as at March 31, 1997 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the period ended March 31, 1996.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation and its wholly-owned subsidiaries.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 15, 1997

CANADA LANDS COMPANY LIMITED—*Continued*

CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Properties		
Income producing properties (Note 4)	170,370	186,668
Properties under development (Note 4)	17,607	27,448
Land held for development or sale	124,679	123,009
	312,656	337,125
Other assets		
Cash and short-term deposits (Note 5)	20,491	12,013
Amounts receivable (Note 6)	64,725	41,247
Prepaid expenses and other	5,912	4,729
	91,128	57,989
	403,784	395,114

LIABILITIES AND SHAREHOLDER'S EQUITY	1997	1996
Liabilities		
Mortgages payable (Note 7)	37,057	60,191
Notes payable to the Federal Government (Note 8)	37,100	
Bank indebtedness	711	3,550
Accounts payable and accrued liabilities (Note 12)	76,710	77,368
Prepaid rents and deposits	1,270	1,799
Income tax payable	1,313	2,074
	154,161	144,982
SHAREHOLDER'S EQUITY		
Capital stock (Note 10)		
Contributed surplus (Notes 3 and 10)	238,717	249,617
Retained earnings	10,906	515
	249,623	250,132
Commitments (Notes 4 and 12)	403,784	395,114

See accompanying notes to consolidated financial statements.

On behalf of the Board:

JON K. GRANT
Chairman of the Board

CHARLES PELLETIER
Chartered Accountant

CANADA LANDS COMPANY LIMITED—*Continued*

CONSOLIDATED STATEMENT OF INCOME
AND RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 1997
with comparative figures for the seven months
ended March 31, 1996 (Note 1)
(in thousands of dollars)

	1997	1996
Revenues		
Property sales	142,765	26,248
Rental	43,072	24,180
Attractions, food and beverage	31,867	12,894
Interest and other	9,052	5,358
Property sales management fee		10,070
	226,756	78,750
Expenses		
Cost of property sales	106,623	23,297
Provision for diminution in value of assets	15,586	
Rental operating costs	30,227	16,897
Attractions, food and beverage costs	23,210	13,335
Interest and other financing costs (Notes 7 and 12)	2,318	10,757
General and administrative	16,693	9,442
Depreciation	8,718	3,671
Other (Note 17)	3,161	
	206,536	77,399
Net income before tax	20,220	1,351
Income tax (Note 11)	9,829	836
Net income	10,391	515
Retained earnings, beginning of period	515	
Retained earnings, end of period	10,906	515

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
with comparative figures for the seven months
ended March 31, 1996 (Note 1)
(in thousands of dollars)

	1997	1996
Operating activities		
Net income	10,391	515
Recovery of real estate costs on sale	106,623	23,297
Provision for diminution in value of assets	15,586	
Expenditures on properties	(47,385)	(17,044)
Depreciation	8,718	3,671
Other expenses (Note 17)	3,161	
Deferred income tax	(431)	(1,508)
	96,663	8,931
Net change in operating assets and liabilities	(31,303)	9,292
Cash provided by operating activities	65,360	18,223
Financing activities		
Mortgages payable	(23,134)	(12,749)
Notes payable to the Federal Government (Note 8)	37,100	
Reduction of capital stock (Note 10)	(10,900)	
Amount payable on acquisitions (Note 3)	4,601	
Cash provided by (applied to) financing activities	7,667	(12,749)
Investment activities		
Expenditures on property held for investment	(6,460)	(5,693)
Acquisitions (Note 3)	(55,250)	(249,617)
Contributed surplus arising from acquisition of net assets (Note 3)		249,617
Cash applied to investment activities	(61,710)	(5,693)
Increase (decrease) in cash	11,317	(219)
Cash, beginning of period	8,463	
Cash acquired (Note 3)		8,682
Cash, end of period	19,780	8,463

Cash includes cash and short-term deposits and is net of bank indebtedness.

See accompanying notes to consolidated financial statements.

CANADA LANDS COMPANY LIMITED—*Continued*

NOTES

1. Authority and activities of the Corporation

Canada Lands Company Limited, a non-agent Crown corporation, originally named Public Works Lands Company Limited, was incorporated under the *Companies Act* in 1956 and was continued under the *Canada Business Corporations Act*. It was added to Schedule C to the *Financial Administration Act* in 1979 and listed as a parent Crown corporation in 1984 in Part I of Schedule III to the *Financial Administration Act*.

The Corporation has full power to acquire, manage, improve, sell or otherwise deal in or dispose of real or personal property or any interest therein. Until 1995, the Corporation had been used to hold, in trust for Federal Government departments, certain leasehold interests in two properties in London, England, and two properties on First Nations' reserves in Canada. Funding for these leases is borne by the departments.

As a consequence of the *CN Commercialization Act* in 1995, the Corporation acquired effective August 31, 1995 all the shares of Canada Lands Company CLC Limited (CLC) and CN Tower Limited (CNTL). Prior to that date, the Corporation was inactive and had only nominal assets and share capital.

Accordingly, the comparative figures in the accompanying consolidated statements of income and retained earnings, and changes in financial position reflect the results of operations and changes in financial position for the seven-month period August 31, 1995 to March 31, 1996.

CLC's objective is principally to carry out a commercially-oriented and orderly disposal program of certain Federal Government real properties. In undertaking this objective, CLC may manage, develop and dispose of real properties, either in the capacity of owner or as agent for the Federal Government. It is anticipated that this disposal program will be completed over a number of years.

At March 31, 1997, the business of CNTL was the operation of the CN Tower in Toronto, Ontario (Note 17). Its income was primarily derived from the operation of attractions, food and beverage facilities.

2. Summary of significant accounting policies

(a) General

The consolidated financial statements are prepared in accordance with generally accepted accounting principles. With respect to real estate activities, the Corporation's accounting policies and standards of financial disclosure are also substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies, of which the Corporation is an associate member.

(b) Consolidation

(i) The Corporation consolidates the accounts of its two principal wholly-owned subsidiaries, CLC and CNTL.

(ii) The consolidated financial statements also include the Corporation's proportionate share of all incorporated and unincorporated joint ventures in which the Corporation has an interest, to the extent of the Corporation's interest in their respective assets, liabilities, revenues, expenses and cash flows.

(iii) The accounts of the Corporation's other non-principal subsidiaries are excluded from consolidation because the Corporation does not expect to obtain future economic benefits from the resources of these subsidiaries and is not exposed to the related risks. These non-consolidated subsidiaries are Canada Lands Company (Vieux-Port de Québec) Inc. and Old Port of Montréal Corporation Inc.

The Corporation has one additional subsidiary, 3148131 Canada Limited, which is presently inactive.

(c) Income recognition

The Corporation recognizes income as follows:

(i) Property sales

When the Corporation has fulfilled all material conditions and received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser.

(ii) Income producing properties under development

When break-even cash flow after debt service is achieved but not later than one year after substantial completion.

(d) Properties

(i) Income producing properties are carried at cost less accumulated depreciation and, if intended for disposition, at the lower of cost less accumulated depreciation and net realizable value.

(ii) Properties under development and land held for development or sale are carried at the lower of cost and net realizable value.

(iii) Prior to sale, the Corporation capitalizes all direct deferred selling costs related to the properties.

(iv) When significant interest costs are incurred related to development activities, the Corporation capitalizes such costs to properties.

(e) Depreciation

Depreciation is calculated on the straight-line method using rates based on the estimated remaining useful lives of the assets, which range from 5 to 40 years.

(f) Asset valuation

In determining estimates of net realizable values and fair market values (Note 3) for its properties, the Corporation relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

CANADA LANDS COMPANY LIMITED—*Continued*

NOTES—*Continued*

The Corporation's properties are subject to various government laws and regulations relating to the protection of the environment. The Corporation has made, and expects to make in the future, expenditures to comply with such laws and regulations. Where estimated costs are reasonably determinable, the Corporation considers such costs in arriving at estimates of fair market value of its properties, based on management's estimate of such costs. Such estimates are, however, subject to change based on agreements with regulatory authorities, changes in laws and regulations, the ultimate use of the property, and as new information becomes available.

Due to the assumptions which must be made in arriving at estimates of fair market value, such estimates, by nature, are subjective and do not necessarily result in a precise determination of asset value.

(g) Pre-opening costs

Pre-opening costs for new attractions, food and beverage operations are expensed as incurred.

3. Acquisition of assets

(a) During the year ended March 31, 1997, CLC acquired an interest in five real estate properties from a Government of Canada department and a Crown corporation, for an aggregate purchase price of $55.25 million.

Consideration for the assets acquired was the issuance of promissory notes payable to the Federal Governement in the amount of $37.1 million (Note 8), and an amount payable to a Crown corporation of $18.15 million of which approximately $13.5 million was paid off during the year ended March 31, 1997.

The purchase price was established at the properties estimated fair market values at the dates of the acquisitions and is subject to adjustment under certain circumstances.

(b) Effective August 31, 1995, CLC and CNTL acquired from their then parent company, Canadian National Railway Company ("CN"), a portfolio of real estate properties and the CN Tower and related entertainment and hospitality facilities, respectively.

Through a series of subsequent transactions, also effective August 31, 1995, the Minister of Transport contributed to the Corporation all the shares of CLC and CNTL.

A summary of the net assets acquired is as follows:

	CLC	CNTL	Total
	(in thousands of dollars)		
Assets acquired			
Properties	255,590	85,798	341,388
Other assets, including cash of $8,682	54,275	4,099	58,374
	309,865	89,897	399,762
Debt and other obligations assumed	146,046	4,099	150,145
Net assets acquired	163,819	85,798	249,617

The Corporation has recorded the $249,617,000 as contributed surplus.

Effective August 31, 1995, the Corporation established carrying values for the individual real estate assets acquired and the related debt and other obligations assumed based on estimates of fair market value and giving consideration to the portfolio of properties as a whole. The Corporation's interest in CNTL including its principal asset, the CN Tower, is recorded at a carrying value equivalent to historic net book value, which at the date of acquisition, approximated estimated fair market value.

4. Properties

(a) Income producing properties

The Corporation's income producing properties consist of the CN Tower, office, industrial and mixed-use buildings.

	1997	1996
	(in thousands of dollars)	
Land	38,036	46,800
Buildings	143,714	143,509
	181,750	190,309
Accumulated depreciation	11,380	3,641
	170,370	186,668

(b) Properties under development

Properties under development consist of industrial office projects under construction and residential and industrial land currently being serviced.

	1997	1996
	(in thousands of dollars)	
Income producing properties	1,495	9,865
Land	16,112	17,583
	17,607	27,448

Capital commitments at March 31, 1997 total $4,165,000 (1996—$5,369,000).

5. Cash and short-term deposits

Included in cash and short-term deposits are amounts totalling $2,507,000 (1996—$4,180,000) held in joint ventures, which can only be applied to specific liabilities or which will only become available to the Corporation in future periods.

6. Amounts receivable

Amounts receivable are comprised as follows:

	1997	1996
	(in thousands of dollars)	
Assignment of rents receivable	35,067	35,000
Mortgages and secured notes receivable	20,991	263
Trade receivables	8,667	5,984
	64,725	41,247

CANADA LANDS COMPANY LIMITED—*Continued*

NOTES—*Continued*

(a) The Corporation has a receivable under an assignment agreement in respect of rents receivable, which entitles it to receive rental income during the period ending 2013. At March 31, 1997, the assignment of rents receivable in the amount of $35 million reflects the estimated payments to be received during the term of the agreement, less imputed interest, as follows:

	(in thousands of dollars)
Years ending March 31	
1998	4,485
1999	4,570
2000	4,615
2001	4,758
2002	4,897
Subsequent years	70,750
	94,075
Less amounts representing imputed interest	59,008
	35,067

(b) Mortgages and secured notes receivable bear interest at various rates, and are repayable as follows:

	(in thousands of dollars)
Years ending March 31	
1998	14,331
1999	1,289
2000	3,058
2001	931
2002	142
Subsequent years	1,240
	20,991

7. Mortgages payable

Mortgages payable are secured by two of the Corporation's properties, and have a maturity schedule as follows:

	(in thousands of dollars)
Years ending March 31	
1998	145
1999	157
2000	170
2001	184
2002	200
Subsequent years	36,201
	37,057

Interest incurred on mortgages payable amounted to $4,649,000 (1996—$3,502,000) for the year ended March 31, 1997, and is payable at a weighted annual average rate of 10.38% (1996—10.37%).

8. Notes payable to the Federal Government

The notes payable are non-interest bearing and repayable from the proceeds of the sale of the real estate properties in respect of which the notes were issued. Based on the anticipated timing of the sale of the real estate properties, principal repayments are estimated to be due as follows:

	(in thousands of dollars)
Years ending March 31	
1998	900
1999	19,200
2000	11,800
2001	3,100
2002	1,100
2003	1,000
	37,100

The principal amounts payable are subject to adjustment under certain circumstances. The specific terms and conditions applicable to the notes payable are currently under discussion with the Government. As a result, the fair value of the notes payable is not readily determinable at this time.

9. Financial instruments

(a) Cash and short-term deposits approximate fair value due to the short-term nature of these financial instruments. Short-term deposits are invested periodically at current market rates.

(b) Assignment of rents receivable approximate fair value based on discounted cash flow. Payment is dependent upon the cash flow of certain real estate leased to a single party.

(c) Mortgages and secured notes receivable approximate fair value based on discounted cash flow. There are no individually significant counterparties.

(d) Trade receivables approximate fair value due to the short-term nature of these financial instruments. There are no individually significant counterparties.

(e) Mortgages payable have a fair value at March 31, 1997 of $43,000,000 (1996—$41,000,000).

(f) Accounts payable and accrued liabilities approximate fair value due to their short-term nature or based on discounted cash flow, as appropriate.

10. Capital stock

The Corporation is authorized to issue three shares which shall only be transferred to a person approved by the Minister of Public Works and Government Services. The three authorized shares have been issued in consideration of services rendered and are held in trust for Her Majesty in right of Canada by the Minister of Public Works and Government Services. Nominal value has been ascribed to the three issued shares of the Corporation.

During the year ended March 31, 1997, in accordance with the *Canada Business Corporations Act*, the Corporation transferred $10.9 million of its contributed surplus to capital stock and subsequently reduced its capital stock by this amount by payment to the Shareholder.

CANADA LANDS COMPANY LIMITED—*Continued*

NOTES—*Continued*

11. Income tax

The Corporation is taxable under Federal and Provincial laws. The Corporation's income tax expense for the year ended March 31, 1997 includes large corporations tax in the amount of $524,000 (1996—$519,000).

12. Other liabilities and commitments

The Corporation has a commitment under an income guarantee agreement whereby the Corporation is obligated to fund up to a maximum of approximately $13 million annually. The agreement expires in 2083, subject to earlier termination in 2009 under certain circumstances. The Corporation's estimate of this obligation, which is based on assumptions regarding future events and economic circumstances, is included in accounts payable and accrued liabilities. For the year ended March 31, 1997, interest and other financing costs are net of income of $2,415,000 related to this obligation (1996—expense of $7,255,000).

Letters of credit totalling $5,829,000 (1996—$7,183,000) were outstanding at March 31, 1997.

The Corporation has entered into commitments under operating leases for land and office premises for terms up to 95 years, with minimum lease payments as follows:

	(in thousands of dollars)
Years ending March 31	
1998	1,127
1999	1,146
2000	1,137
2001	972
2002	432
Subsequent years	17,103
	21,917

13. Joint ventures

The following amounts included in the consolidated financial statements represent the Corporation's proportionate share in joint ventures:

	1997	1996
	(in thousands of dollars)	
Assets	53,322	81,967
Liabilities	41,069	65,363
Revenues	49,602	29,334
Expenses	47,733	26,879
Net income	1,869	2,455
Cash provided by operating activities	21,461	13,008
Cash applied to financing activities	(23,134)	(12,575)

The Corporation is contingently liable for obligations of its associates in such joint ventures. In each case, all of the assets of the joint venture are available for the purpose of satisfying such obligations.

14. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

In addition to those related party transactions disclosed elsewhere in these financial statements, the significant transactions during the period were:

(a) In 1996, the Corporation carried out a special divestment program of certain real estate assets owned by CN, the Corporation's former parent company, and was paid a management fee by way of participation in the net sales proceeds.

(b) The Corporation receives audit services without charge from the Office of the Auditor General of Canada.

15. Segmented information

The Corporation's major areas of business activities are the management, development and sale of real estate, and the entertainment and hospitality operations of the CN Tower.

Additional information on these activities is as follows:

	Real estate activities	Entertainment and hospitality	Total 1997	Total 1996
	(in thousands of dollars)			
Year ended March 31, 1997 with comparative figures for the seven months ended March 31, 1996 (Note 1)				
Revenues	190,822	35,934	226,756	78,750
Depreciation	3,319	5,399	8,718	3,671
Net income before tax	20,827	(607)	20,220	1,351
Acquisitions and expenditures on properties	102,635	6,460	109,095	22,737
As at March 31, 1997				
Identifiable assets	312,218	91,566	403,784	395,114

16. Information on non-consolidated subsidiary companies

Canada Lands Company (Vieux-Port de Québec) Inc. ceased operations effective March 31, 1988. However, a decision has yet to be taken with respect to the formal dissolution of the corporation pending the resolution of certain legal matters. As at March 31, 1996, this corporation, in thousands of dollars, had assets of $495, liabilities of $292 and equity of Canada of $203.

Old Port of Montréal Inc. promotes the development of the lands of the Old Port of Montréal and develops, administers, manages and maintains Crown property in that location. This corporation has been directed to report as a parent Crown corporation. As at March 31, 1996, this corporation, in thousands of dollars, had assets of $2,122, liabilities of $2,111 and equity of Canada $11 with revenue of $10,445 and excess of operating expenditures over revenue of $1,800 for the year then ended.

Canada Museums Construction Corporation Inc. was dissolved on March 27, 1997.

CANADA LANDS COMPANY LIMITED—*Continued*

NOTES—*Concluded*

17. Proposed lease of CN Tower

In March 1997, CNTL entered into a letter of intent to lease certain of its land holdings, the CN Tower and its business under a long-term operating lease. In the year ended March 31, 1997, due to the proposed lease, CNTL expensed costs of approximately $3.2 million incurred primarily in connection with the previously proposed base redevelopment plan.

It is anticipated that closing of the above transactions will occur in June 1997. Accordingly, following closing, the primary activity of CNTL will be the rental of the CN Tower, its business and related lands.

18. Comparative figures

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 1

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1997
WERE NOT AVAILABLE AT DATE OF PRINTING

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 2

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Canada Museums Construction Corporation Inc. are the responsibility of management and have been approved by members of the Board of Directors of the Corporation. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's estimates and judgement.

Management has developed and maintains books of account, records, financial and management controls and information systems. The internal controls are designed to provide reasonable assurance that relevant and reliable financial information is produced, that assets are safeguarded and controlled and that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

The Board of Directors is composed of three directors, all of whom are not employees of the Corporation. The Board of Directors has the responsibility to review and approve the financial statements, as well as overseeing management's performance of its financial reporting responsibilities. The Board is also responsible for meeting with management to discuss the financial reporting process as well as auditing, accounting and reporting issues.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements and for issuing his report thereon.

R. A. Quail
Chairman and Chief Executive Officer

R. Plourde
Treasurer and Comptroller

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS AND GOVERNMENT SERVICES

I have audited the balance sheet of Canada Museums Construction Corporation Inc. as at March 27, 1997 and the statement of changes in financial position for the period then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 27, 1997 and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 20, 1997

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 2—*Continued*

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Continued*

BALANCE SHEET AS AT MARCH 27, 1997 (date of dissolution)
with comparative figures for the year ended March 31, 1996
(in thousands of dollars)

ASSETS	1997	1996	LIABILITIES	1997	1996
Cash and investments	13	42	Accounts payable and accrued liabilities	325	897
Construction in progress (Schedule)			Contractor's holdbacks payable		22
				325	919
			EQUITY OF CANADA (DEFICIENCY)		
			Deficiency (Note 3)	(312)	(877)
	13	42		13	42

Contingencies and claims (Note 4).
The accompanying notes form an integral part of the financial statements.

Approved by the Board:

R. A. QUAIL
Chairman and Chief Executive Officer

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 2—*Continued*

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE PERIOD ENDED MARCH 27, 1997 (date of dissolution) with comparative figures
for the year ended March 31, 1996
(in thousands of dollars)

	1997	1996
Operating activities		
Decrease (increase) in construction costs during the period (Schedule)	565	(1,749)
Changes in non-cash items		
Accounts receivable		6
Accounts payable and accrued liabilities	(572)	(313)
Contractor's holdbacks payable	(22)	(36)
	(29)	(2,092)
Cash and investments		
At beginning of year	42	2,134
At end of year	13	42

The accompanying notes form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 27, 1997 (date of dissolution)
with comparative figures
for the year ended March 31, 1996

1. Authority and activities

The Corporation was incorporated on June 21, 1982 under the *Canada Business Corporations Act* as an agent of Her Majesty pursuant to the *Government Companies Operations Act,* and was named as a parent Crown corporation in Part I of Schedule III to the *Financial Administration Act.* Until November 26, 1991, two-thirds of the capital stock was held by the Canada Lands Company Limited, also a parent Crown Corporation, and one-third by the Minister of Public Works and Government Services Canada (formerly Department of Public Works) who had control of the Corporation.

On November 26, 1991, Royal Assent was given to Bill C-8 making Canada Museums Construction Corporation Inc. (CMCC) a wholly-owned subsidiary of Canada Lands Company Limited. Accordingly, the share previously held by the Minister of Public Works and Government Services Canada (PWGSC) was transferred to Canada Lands Company Limited and the Corporation was deleted from Part I of Schedule III to the *Financial Administration Act.*

The business of the Corporation has been limited to the construction, in the National Capital Region, of buildings for the National Gallery of Canada (NGC) and the Canadian Museum of Civilization (CMC), including the acquisition, control, administration and disposal of land required for the construction.

(a) Status of the Corporation

In 1997, the Corporation filed Articles of Dissolution under the *Canada Business Corporations Act.* On March 27, 1997, the Corporation obtained a Certificate of Dissolution from the Director of the *Canada Business Corporations Act.* Therefore, the Corporation is effectively dissolved and officially ceased all operations as of March 27, 1997.

(b) Disposal of assets and responsibility for liabilities

Remaining funds in the CMCC bank account, after the dissolution of the Corporation, will be deposited to the Consolidated Revenue Fund in accordance with a Treasury Board decision. In addition, as a result of this decision, PWGSC must assume the responsibility for any additional costs related to the settlement of claims, the payment of outstanding accounts payable and of any other contingencies resulting from the construction of the two museums. Any other remaining assets will be transferred to PWGSC.

CANADA LANDS COMPANY LIMITED—*Continued*

APPENDIX 2—*Continued*

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 27, 1997 (date of dissolution)
with comparative figures
for the year ended March 31, 1996—*Concluded*

(c) Funding

Since the incorporation of CMCC, Treasury Board has allocated funds for construction of the museums totalling $338.21 million as follows:

	NGC	CMC	Total
	(in millions of dollars)		
Construction	121.85	161.16	283.01
Architects and consultants	14.30	26.20	40.50
	136.15	187.36	323.51
Administration expenses	6.95	7.75	14.70
	143.10	195.11	338.21

2. Significant accounting policies

(a) Basis of accounting

These financial statements account for the costs incurred on an accrual basis of accounting by the Corporation in the construction of the museums. They do not account for costs incurred by the National Capital Commission (NCC) for sites or by the former National Museums of Canada (NMC) for accommodation planning and fit-ups.

(b) Construction in Progress

Cumulative construction costs, including those for site evaluation, design, construction and administration, are recorded as construction in progress until such time as custody and control of the museums are transferred to PWGSC. Custody and control of the NGC building were transferred in 1988-89, while custody and control of the CMC building were transferred in 1990-91. Cumulative construction costs for each museum are disclosed in the Schedule.

3. Deficiency

	1997	1996
	(in thousands of dollars)	
Opening balance	(877)	872
Net construction costs during the period	565	(1,749)
Ending balance	(312)	(877)

4. Contingencies and claims

One claim made against the Corporation in the amount of approximately $400,000 remained unsettled as of March 27, 1997. The claim is proceeding through litigation and an adequate amount is included in these statements as a provision to settle this claim. However, as indicated in 1.(b) of these notes to the Financial Statements, in accordance with a Treasury Board decision, PWGSC will assume responsibility for any disbursement as a result of the settlement of this claim.

5. Related party transactions

(a) The Corporation receives audit, legal and certain administration services without charge from the Office of the Auditor General of Canada and the Department of Justice of Canada, respectively.

(b) PWGSC entered into an agreement with Canada Lands Company Limited (Canada Lands) and CMCC on January 24, 1997 as a result of which PWGSC will be responsible for costs associated with settlement of court actions against CMCC or court actions initiated by CMCC against third parties. PWGSC further agreed to deposit in the Consolidated Revenue Fund all settlements which may be awarded to CMCC as a result of favourable court rulings.

6. Administration expenses

The Corporation incurred the following administration expenses which have been allocated to the Museum of Civilization Project only:

	1997	1996
	(in thousands of dollars)	
Professional and special services	14	152
Government services		49
Other	1	3
	15	204

CANADA LANDS COMPANY LIMITED—*Concluded*

APPENDIX 2—*Concluded*

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Concluded*

SCHEDULE OF CONSTRUCTION COSTS
FOR THE PERIOD ENDED MARCH 27, 1997 (date of dissolution)
with comparative figures for the year ended March 31, 1996
(in thousands of dollars)

	National Gallery of Canada			Canadian Museum of Civilization			Total		
	Balance to March 31, 1996	1997	Balance to March 27, 1997	Balance to March 31, 1996	1997	Balance to March 27, 1997	Balance to March 31, 1996	1997	Balance to March 27, 1997
Construction costs	114,182	(250)	113,932	147,143	(22)	147,121	261,325	(272)	261,053
Landscaping	4,552		4,552	7,224		7,224	11,776		11,776
Fit-up	7,046		7,046	29,609		29,609	36,655		36,655
Architects and consultants	16,291		16,291	32,938		32,938	49,229		49,229
Construction managers	6,252		6,252	13,157		13,157	19,409		19,409
	148,323	(250)	148,073	230,071	(22)	230,049	378,394	(272)	378,122
Administration (Note 6)	7,360		7,360	13,219	15	13,234	20,579	15	20,594
	155,683	(250)	155,433	243,290	(7)	243,283	398,973	(257)	398,716
Less:									
Funding by NMC	8,776		8,776	35,677		35,677	44,453		44,453
Funding by NCC	4,000		4,000	3,700		3,700	7,700		7,700
Funding by PWGSC	597		597	2,287	308	2,595	2,884	308	3,192
Interest income	1,419		1,419	3,484		3,484	4,903		4,903
	14,792		14,792	45,148	308	45,456	59,940	308	60,248
	140,891	(250)	140,641	198,142	(315)	197,827	339,033	(565)	338,468

CANADA MORTGAGE AND HOUSING CORPORATION

FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 1996

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

CMHC management is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying financial statements for the year ended December 31, 1996 were prepared in accordance with generally accepted accounting principles in Canada. The financial information contained elsewhere in this report is consistent with that in the financial statements.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, internal audit staff, and independent external auditors to review the manner in which these groups are performing their responsibilities, and to discuss auditing, internal controls, and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditors and has submitted its report to the Board of Directors which has approved the financial statements.

The financial statements have been audited by the joint external auditors, Jacques Champagne, CA, of the firm Mallette Maheu, and L. Denis Desautels, FCA, Auditor General of Canada. Their report offers an independent opinion on the financial statements to the Minister Responsible for Canada Mortgage and Housing Corporation.

Marc Rochon
President and Chief Executive Officer

Karen A. Kinsley
Vice-President,
Corporate Services and Chief Financial Officer

AUDITORS' REPORT

TO THE MINISTER OF PUBLIC WORKS
AND GOVERNMENT SERVICES

We have audited the balance sheets of the Canada Mortgage and Housing Corporation for the Corporate Account and Insurance and Guarantee Funds as at December 31, 1996, and the related statements of operations and reserve fund, operations and surplus (deficit), and changes in financial position, and the Minister's Account statement of expenses and recoveries for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Mortgage and Housing Corporation Act*, the *National Housing Act* and the by-laws of the Corporation.

Jacques Champagne, CA
Mallette Maheu
Associated with Arthur Andersen

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
March 5, 1997

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

CORPORATE ACCOUNT

BALANCE SHEET AS AT DECEMBER 31, 1996
(in thousands of dollars)

ASSETS	1996	1995
Loans and investments (Notes 3, 4 and 23)	14,154,626	12,400,774
Cash and short-term investments (Notes 5 and 23)	227,980	722,083
Deferred recoveries from the Minister's Account	252,961	254,711
Due from the Minister's Account (Note 7)	278,122	301,605
Assets under capital lease (Note 8)	27,003	28,892
Business premises and equipment (Note 9)	34,065	32,236
Accounts receivable (Note 23)	87,776	71,923
Deferred income taxes	20,493	14,810
Other assets (Note 5)	14,962	18,518
Due from Insurance and Guarantee Funds		3,882
	15,097,988	13,849,434

LIABILITIES	1996	1995
Borrowings from the Government of Canada (Notes 3, 10 and 23)	7,093,971	7,504,816
Capital market borrowings (Notes 10 and 23)	7,572,915	5,965,875
Obligation under capital lease (Note 11)	32,592	33,940
Accounts payable and accrued liabilities (Notes 7 and 23)	323,183	301,801
Due to the Receiver General for Canada	24,521	7,854
Due to Insurance and Guarantee Funds	22,229	
	15,069,411	13,814,286
CAPITAL AND RESERVE FUND		
Capital		
Authorized and fully paid by the Government of Canada	25,000	25,000
Reserve fund (Note 12)	3,577	10,148
	15,097,988	13,849,434

The accompanying notes are an integral part of the financial statements.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

CORPORATE ACCOUNT

STATEMENT OF OPERATIONS AND RESERVE FUND
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Interest earned (Notes 3 and 13)	1,128,243	1,022,731
Interest expense (Note 10)	1,103,952	1,002,401
Margin on financing operations	24,291	20,330
Real estate sales	16,961	11,775
Cost of real estate sold	(2,089)	(4,286)
Holding costs (Note 4)	(20,061)	(5,885)
Gain (loss) on real estate	(5,189)	1,604
Other income	1,134	1,099
Income before operating expenses	20,236	23,033
Operating expenses (Note 14)	29,614	35,538
Loss before taxes	9,378	12,505
Taxes (Note 15)	2,807	3,923
Net loss	6,571	8,582
Reserve fund, beginning of year	10,148	18,730
Reserve fund, end of year	3,577	10,148

The accompanying notes are an integral part of the financial statements.

CORPORATE ACCOUNT

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Operating activities		
Net loss	(6,571)	(8,582)
Add (deduct)		
Amortization	4,705	4,769
Deferred income taxes	(5,683)	(2,947)
	(7,549)	(6,760)
Changes in		
Due to/from		
The Receiver General for Canada	16,667	(6,672)
Insurance and Guarantee Funds	26,111	(7,952)
The Minister's Account	23,483	(49,334)
Accounts receivable	(15,853)	(31,299)
Accounts payable and accrued liabilities	21,382	(2,461)
Accrued interest payable	7,134	35,346
Accrued interest receivable	(5,333)	(8,514)
Other assets	3,556	14,776
	69,598	(62,870)
Investment activities		
Loans and investments		
Repayments	397,600	298,742
Additions	(2,146,119)	(2,214,254)
Change in deferred recoveries from the Minister's Account	1,750	70,823
Additions to business premises and equipment	(4,645)	(3,051)
	(1,751,414)	(1,847,740)
Financing activities		
Repayments of borrowings from the Government of Canada	(409,913)	(447,372)
Capital market borrowings	1,598,974	2,515,514
Repayment of obligation under capital lease	(1,348)	(1,204)
	1,187,713	2,066,938
Increase (decrease) in cash position	(494,103)	156,328
Cash and short-term investments		
Beginning of year	722,083	565,755
End of year	227,980	722,083

The accompanying notes are an integral part of the financial statements.

MINISTER'S ACCOUNT

STATEMENT OF EXPENSES AND RECOVERIES
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Expenses		
Market housing	57,185	47,924
Social housing	1,746,725	1,839,089
Housing support	11,003	8,296
Fees paid to delivery agents	12,071	14,448
Operating expenses (Note 14)	117,606	92,102
Expenses recoverable (Note 7)	1,944,590	2,001,859

The accompanying notes are an integral part of the financial statements.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

INSURANCE AND GUARANTEE FUNDS

BALANCE SHEET
AS AT DECEMBER 31, 1996
(in thousands of dollars)

ASSETS	1996	1995
	(Note 22)	
Investment in securities (Notes 3, 19 and 23)	2,187,385	1,976,982
Real estate	298,719	306,398
Mortgages (Note 23)	14,019	15,791
Accounts receivable and other assets (Note 23)	847	4,397
Deferred income taxes	24,964	14,262
Due from Corporate Account	22,229	
	2,548,163	2,317,830

LIABILITIES	1996	1995
	(Note 22)	
Unearned premiums and guarantee fees	1,740,915	1,525,888
Provision for claims	742,733	721,807
Due to Receiver General for Canada		13,308
Accounts payable and accrued liabilities (Note 23)	16,887	8,959
Due to Corporate Account		3,882
	2,500,535	2,273,844
SURPLUS (Note 20)	47,628	43,986
	2,548,163	2,317,830

The accompanying notes are an integral part of the financial statements.

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF OPERATIONS AND SURPLUS (DEFICIT)
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
	(Note 22)	
Revenues		
Earned premiums and guarantee fees	358,956	352,559
Application fees	41,144	36,324
Income from investments (Note 19)	154,835	152,924
Other	2,053	3,093
	556,988	544,900
Expenses		
Loss on claims	386,308	305,280
Operating expenses (Note 14)	121,510	120,403
Adjustment to provision for claims	20,926	71,998
	528,744	497,681
Income before the undernoted	28,244	47,219
Adjustment to premium deficiency		55,062
Income before taxes	28,244	102,281
Taxes (Note 15)	11,690	9,497
Net income	16,554	92,784
Surplus (deficit)		
Balance, beginning of year	43,986	(48,798)
Assets returned to the Governemnt of Canada	(12,912)	
Balance, end of year	47,628	43,986

The accompanying notes are an integral part of the financial statements.

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
	(Note 22)	
Operating activities		
Premiums and guarantee fees received	573,983	447,522
Application fees received	41,144	36,324
Investment income received	148,496	154,043
Net claims	(350,802)	(308,283)
Operating expenses paid	(112,320)	(120,403)
Taxes paid	(36,061)	11,047
Other	(22,633)	(12,885)
	241,807	207,365
Investment activities		
Investment in securities	(202,784)	(215,317)
Assets returned to the Government of Canada	(12,912)	
Increase (decrease) in due from Corporate Account	26,111	(7,952)

The accompanying notes are an integral part of the financial statements.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996

1. Basis of presentation

Canada Mortgage and Housing Corporation was incorporated as a Crown corporation January 1, 1946. The Corporation is regulated by the *Canada Mortgage and Housing Corporation Act*. The Corporation's mandate, as stated in the *National Housing Act*, is "to promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions". The Corporation is for all purposes an agent of Her Majesty in the right of Canada.

The Corporation has three separate responsibilities under its mandate and maintains separate accounting records for each. Separate financial statements are presented in order to preserve the separate identities of the assets, liabilities, capital, reserve fund, surpluses or deficits.

Together, these statements constitute the financial statements of the Corporation and reflect all of the transactions of the Corporation for the year ended December 31, 1996.

Corporate Account

Within this responsibility, the Corporation makes loans and other investments under various provisions of the *National Housing Act*, develops and sells land holdings, and provides services in housing related areas. Funding is provided by borrowings from the Government of Canada and capital markets.

Minister's Account

The Corporation administers housing programs under provisions of the *National Housing Act* with funding provided by the Government of Canada through annual Parliamentary appropriations. The Corporation is reimbursed for subsidies and losses relating to these programs in addition to the related operating expenses.

Insurance and Guarantee Funds

The Corporation administers insurance and guarantee funds under provisions of the *National Housing Act*. The Mortgage Insurance Fund provides insurance against borrower default on residential mortgages. The Mortgage-Backed Securities Guarantee Fund guarantees the principal and interest for investors of securities based on insured mortgages.

In total, the Corporation manages:

	1996	1995
	(in thousands of dollars)	
Assets	17,623,922	16,163,382
Liabilities	17,547,717	16,084,248
Portion payable to Government of Canada	7,093,971	7,504,816
Minister's Account expenses recoverable from parliamentary appropriations	1,944,590	2,001,859
Operating expenses	268,730	248,043

Operating expenses are allocated to the three separate areas of responsibility as disclosed in Note 14.

2. Significant accounting policies

These financial statements are prepared in accordance with generally accepted accounting principles in Canada.

(a) Loans

Corporate Account

Loans are valued at cost plus accrued interest. As they are intended to be held until maturity, their carrying value is not adjusted to reflect any temporary decline in fair value.

Losses on insured loans are recoverable through the Mortgage Insurance Fund and losses on uninsured loans are recoverable from the Government of Canada through the Minister's Account.

Because the Corporate Account is assured full collection of principal and interest and will not incur any losses on these loans due to uncollectibility, no loss provisions for loan impairment are made.

If loans contain forgiveness clauses, such forgiveness is recorded and recovered from the Government of Canada through the Minister's Account when the loans are advanced.

Loans under certain programs give rise to interest rate losses unrelated to defaults that are recoverable from the Government of Canada through the Minister's Account.

Insurance and Guarantee Funds

Mortgages are valued at cost less a provision for estimated loss based on appraised property values.

(b) Federal-provincial agreements

Loans and investments in housing projects were made under various cost-sharing agreements with the provinces and territories to encourage the development of rental housing, land assembly, co-operative housing, rural and native housing, and housing rehabilitation.

The Corporation's share of costs plus capitalized interest are reflected in these statements. The Corporation's share of subsidies and losses related to these agreements is recovered from the Government of Canada through the Minister's Account.

Gains on the sale of land assembly projects are recognized in the Corporate Account.

(c) Real estate

Corporate Account

Real estate is comprised of: vacant land, direct acquisitions, property acquired through default of uninsured loans and capitalized costs for fee for service projects undertaken on behalf of the Government of Canada.

All real estate is recorded at acquisition cost plus any modernization and improvement costs incurred.

Holding costs, including interest, on vacant land and direct acquisitions by the Corporation, excluding Social Housing projects, are capitalized up to appraised value after which the costs are expensed in the Corporate Account. Gains or losses on disposal are recognized in the Corporate Account.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

Holding costs, including interest, on properties acquired as the result of default on uninsured loans, and for directly acquired Social Housing projects, are capitalized. Gains or losses on the disposal of these properties are paid to or recovered from the Government of Canada through the Minister's Account. All net operating losses, including amortization on buildings calculated on a straight-line basis over the remaining term of the corresponding debt, are recovered from the Government of Canada through the Minister's Account.

All costs incurred related to the projects administered for the Government of Canada on a fee for service basis are capitalized and netted against proceeds from disposal, with all excess monies returned directly to the Consolidated Revenue Fund of the Government of Canada.

Insurance and Guarantee Funds

Real estate acquired upon the payment of a claim resulting from a loan default is valued at the lower of cost or net realizable value. Net realizable value is calculated as the current appraised value of the property, as determined by the Corporation, less the discounted value of estimated holding and disposal costs. Amortization is not recorded on the real estate.

(d) Deferred recoveries from the Government of Canada through the Minister's Account

Effective April 1, 1991, expenditures to modernize and improve certain properties are recovered from the Government of Canada through the Minister's Account over a period not exceeding ten years.

(e) Amortization

Assets under Capital Lease, Business Premises and Equipment are amortized on a diminishing balance basis over the estimated useful life of the asset. Leasehold improvements are amortized on a straight-line basis.

(f) Derivative financial instruments

The Corporation enters into interest rate and cross currency swaps to manage the interest rate and foreign currency exposures arising from on-balance sheet positions. Gains and losses resulting from termination of these contracts are deferred and amortized on a straight-line basis to interest income or expense over the term of the exposure.

(g) Short-term investments/investment in securities

The Corporation has a policy of matching the maturity structure of its Corporate Account assets with that of its liabilities. In those cases where funds are raised in advance of the investment in loans, the Corporation holds Short-term investments as hedges of the anticipated investment in loans. The term to maturity of the Short-term investments matches the term of the borrowing so that the Corporation is hedged against movements in the interest rates between the date of borrowing and the date that the Short-term investments are sold and loans made. For investments designated as hedges as part of the Corporation's asset/liability management strategy, gains and losses are deferred and amortized on a straight-line basis to interest expense over the term of the debit issue that generated the monies for investment. Deferred gains and losses are included in Other assets.

Investments are purchased with the original intention to hold them to maturity or until market conditions render alternative investments more attractive. Such investments are carried at amortized cost plus accrued interest. Investments are written down to their fair value when declines in value are other than temporary. Premiums and discounts on investments are amortized to income over the period to maturity of the related investments. Gains and losses realized on disposal of investments and write downs to reflect other than temporary impairment in value are included in interest income from the investments in the year in which they occur. Gains and losses on disposal are based on the average cost of the securities sold.

(h) Interest earned

Interest earned arising from Loans and investments, cash and Short-term investments and Deferred recoveries from the Minister is recognized on an accrual basis up to the date that the asset is retired. Certain interest revenue is obtained through the Minister's Account.

(i) Capital market borrowing costs

Issuance costs and premiums or Discounts on capital market borrowings are deferred and amortized against Interest expense on a straight-line basis over the term of the debt.

(j) Pension costs and obligations

The cost of pension benefits earned by employees is charged to income as services are rendered. Adjustments arising from pension plan amendments, experience gains and losses, and changes in assumptions are amortized over the expected average remaining service life of the employee group.

(k) Post-retirement benefits

Post-retirement benefits are expensed as incurred and are included in Operating expenses.

(l) Provision for claims

This provision represents the estimated loss on claims in process of payment and the estimated loss on loans, where defaults have occurred, but for which claims have not yet been received by the Corporation.

(m) Premiums

Premiums are deferred and are taken into income over the life of the related policies based on the risk of default in each year.

(n) Premium deficiency

Annually, the Corporation compares the amount of its unearned premiums by line of business to the discounted costs of claims that have not yet occurred on insurance policies in force. Whenever it is determined that the unearned premiums on a line of business are inadequate to meet the expected net costs of future claims, a premium deficiency is charged to operations. Subsequently, it is taken into income on the same basis as unearned premiums.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

(o) Guarantee fees

Guarantee fees are deferred and are taken into income over the term of the relative Mortgage-Backed Security issue on a straight-line basis.

(p) Application fees

Application fees are recognized as income when received.

(q) Insurance issuance costs

Issuance costs are expensed as incurred and are included in Operating expenses.

3. Risk management

The Corporation manages risk through a comprehensive program of risk management policies and processes.

Credit risk

Credit risk is the exposure to financial loss resulting from the possibility that counterparties may default on their obligations to the Corporation. The Corporation mitigates credit risk through the use of prudent investment policies, active portfolio management and diversification. A credit risk management function exists at the Corporation, separate from the dealing function, where credit limits are established and reviewed on an ongoing basis. The Corporation adheres to Department of Finance guidelines with respect to credit risk.

The following tables provide details of the credit ratings assigned to the Corporation's investments based upon internationally accepted ratings:

Short-term investments

	1996	1995
Credit rating	Book value	Book value
	(in thousands of dollars)	
AAA	90,505	581,831
AA	136,267	115,452
Total	226,772	697,283

Investment in securities

	1996	1995
Credit rating	Book value	Book value
	(in thousands of dollars)	
AAA	1,544,291	1,447,031
AA	480,708	366,776
AA low	17,444	17,460
A high	144,942	145,715
Total	2,187,385	1,976,982

As with balance sheet assets, off-balance sheet derivative instruments are subject to credit risk. The credit exposure associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. Credit exposure of derivatives is represented by the positive market value of the instrument.

The following table summarizes the Corporation's derivative portfolio and related credit exposure. The amounts do not take into consideration the legal contracts which permit offsetting of positions or any collateral which may be obtained.

Derivative financial instruments

	1996		1995	
	Notional amount	Maximum credit risk	Notional amount	Maximum credit risk
	(in thousands of dollars)			
Interest rate swaps	7,280,806	139,359	5,427,492	92,495
Cross currency swaps	410,000		410,000	
Total	7,690,806	139,359	5,837,492	92,495

Master netting agreements reduce the Corporation's credit risk exposure by allowing the offsetting of amounts due to/from each counterparty. As at December 31, 1996, the potential impact of master netting agreements reduced credit risk to $121 million (1995—$86 million).

The following table provides details of the credit ratings assigned to the Corporation's counterparties for derivative instruments based upon internationally accepted ratings:

Derivative financial instruments

	1996	1995
Counterparty credit rating	Notional amount	Notional amount
	(in thousands of dollars)	
AAA	1,160,618	246,587
AA	2,719,608	2,292,851
AA low	2,676,894	3,298,054
A high	1,133,686	
Total	7,690,806	5,837,492

At December 31, 1996, a total of $15 million Government of Canada bonds, market value $16 million, had been lodged with the Corporation as collateral for those derivative financial instruments of the counterparty with the A high credit rating covering the marked-to-market exposure.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

Market risk

Market risk is the risk of loss in market value or future cash flows due to adverse changes in financial markets. Market risk can be divided into interest rate risk and foreign exchange risk.

Interest rate risk

In 1991 the Government of Canada discontinued the Corporation's right to prepayment without penalty on its borrowings from the Consolidated Revenue Fund. Of these borrowings, $3 billion funded loans made by the Corporation prior to 1986 under various sections of the *National Housing Act* which have prepayment without penalty privileges.

The Corporation assumed the interest rate risk from the Government of Canada as a result of this arrangement. Interest rate risk is the risk that net interest income will decrease because of an adverse movement in interest rates.

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. The Corporation measures this risk through the use of a number of analytical methodologies including gap reporting, duration analysis and simulation modelling.

During 1993 and 1994 some borrowers renegotiated loans at lower rates of interest. No further renegotiations have occurred and only minimal prepayments of loans have taken place since then.

The following table indicates the annual reductions on margin occurring as a result of these renegotiations.

Reductions to interest earnings

	(in thousands of dollars)
1995	28,800
1996	28,900
1997	29,000
1998	22,300
1999	3,600
2000	900

Because of the reductions to interest earnings, a consequential pre-tax loss of $9 million was recorded (1995—$13 million loss).

This transfer also exposes the Corporation to potential losses in future years which could be material and significant in relation to the Corporate Account Capital and Reserve Fund.

The renegotiated loans have resulted in a cumulative reduction in interest earnings of $90 million to December 31, 1996 and will result in a further reduction in interest earnings of $56 million between January 1, 1997 and the next repricing date.

Management estimates that the potential additional reduction on margin on loans not yet renegotiated, depending on prevailing interest rates, will be approximately $23 million per annum during each of the next five years.

The renegotiated loans together with the others which may yet be renegotiated could result in an accumulated reduction of interest earnings of approximately $261 million for the period to the next repricing date.

The fact that some of the loans renegotiated in 1993 are eligible for repricing in 1998 and the uncertainty in forecasting future interest rates precludes reasonable estimation of impacts beyond those quoted above.

The Corporation continues to discuss this interest rate risk issue with the Government of Canada.

Foreign exchange risk

Foreign exchange risk is the risk that net interest income will fluctuate due to changes in exchange rates. It is Corporation policy to match the currencies of assets and liabilities to avoid any and all foreign exchange exposure.

Liquidity risk

Liquidity risk is the risk of loss due to the inability to unwind financial transactions at or near current market value or the risk that a firm does not have sufficient cash flows to meet obligations from financial transactions. The Corporation practices sound and prudent liquidity management, ensuring funds are available at all times to honour cash requirements and contingencies.

Operational risk

Operational risk is the risk that a loss will be incurred as a result of deficiencies in information systems or internal controls. Operational risk is managed by: a system of internal controls that requires segregation of duties, recording of transaction details and notification, where appropriate, of parties to transactions for verification purposes, training programs, backup systems and a recovery plan regarding systems failure or catastrophic events, pre-testing and parallel implementation of new systems and internal audit reviews.

Legal risk

Legal risk is the risk of loss arising if the Corporation is unable to enforce a financial obligation of a borrower or counterparty. The Corporation's legal department in conjunction with external legal agents plays a key role in all Treasury negotiations, reviewing and approving documentation as required.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

4. Loans and investments

	1996	1995
	(in thousands of dollars)	
Loans	6,642,143	5,832,205
Federal-Provincial Agreements		
Loans	5,665,602	4,694,032
Investments in housing projects	1,672,085	1,712,134
Land assembly projects	47,583	36,327
	7,385,270	6,442,493
Real estate		
Vacant land	51,163	55,036
Direct acquisitions	29,882	23,815
Acquired through default on uninsured loans	33,471	26,062
Capitalized costs of projects administered for the Government of Canada	12,697	21,163
	127,213	126,076
Total loans and investments	14,154,626	12,400,774

Any default or disposal losses incurred relating to 53% of the Loans and investments portfolio are recoverable through the Minister's Account. A further 46% of the portfolio is insured by the Mortgage Insurance Fund.

The amount of interest capitalized on real estate in 1996 was $3 million (1995—$2 million). Holding costs of $20 million (1995—$6 million) on land acquired directly by the Corporation have been expensed in the Corporate Account.

Of the total Loans and Investments portfolio, 88% (1995—86%) relates to Social Housing programs which are supported with subsidies from the Government of Canada through the Ministers Account.

The following table provides the maturity structure of the Loans:

	(in thousands of dollars)
1997	370,600
1998	427,800
1999	421,500
2000	405,200
2001	405,500
Thereafter	10,277,145
Total	12,307,745

The fair value of Loans is included in Note 23.

5. Cash and short-term investments

	1996		1995	
	Book value	Market value	Book value	Market value
	(in thousands of dollars)			
Cash	1,208	1,208	24,800	24,800
Securities issued or guaranteed by Canada	226,772	226,756	697,283	702,492
Total	227,980	227,964	722,083	727,292

The Short-term investments have maturities which range up to five years.

Net gains of $8 million (1995—nil) on sale of Short-term investments used as hedges have been deferred and are included in Other assets.

Cash and Short-term investments produced a yield of 6% (1995—6.5%).

The fair value of Cash and Short-term investments is included in Note 23.

6. Off-balance sheet derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets, or interest or exchange rates. Asset/liability management derivatives are entered into by the Corporation within guidelines set by the Department of Finance, to manage the interest rate and foreign currency exposures arising from on-balance sheet positions in order to ensure a consistent stream of earnings.

The following table provides the amortized notional amounts of derivative instruments outstanding by type and maturity. The notional amounts of these contracts represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market risk or the credit risk of such instruments.

	1996			1995
	Within 1 year	1 to 5 years	Total notional amount	Total notional amount
	(in thousands of dollars)			
Interest rate swaps		7,280,806	7,280,806	5,427,492
Cross currency swaps		410,000	410,000	410,000
Total		7,690,806	7,690,806	5,837,492

The fair value of Derivative financial instruments is included in Note 23.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

7. Due from the Minister

	1996	1995
	(in thousands of dollars)	
Receivable, beginning of year	301,605	252,271
Minister's Account expenses	1,944,590	2,001,859
Recovered from the Minister	(1,968,073)	(1,952,525)
Receivable, end of year	278,122	301,605

Accounts payable and accrued liabilities in the Corporate Account include $229 million (1995—$217 million) which are also included in the receivable, Due from the Minister's Account. When paid, recovery will be made from the Government of Canada through the Minister's Account.

8. Assets under capital lease

		1996			1995
	Amortization rate	Cost	Accumulated amortization	Net book value	Net book value
	%	(in thousands of dollars)			
Building	4	29,810	6,476	23,334	24,305
Leasehold improvement	10	9,173	5,504	3,669	4,587
Total		38,983	11,980	27,003	28,892

Amortization in 1996 was $2 million (1995—$2 million).

9. Business premises and equipment

		1996			1995
	Amortization rate	Cost	Accumulated amortization	Net book value	Net book value
	%	(in thousands of dollars)			
Land		166		166	166
Buildings	4 or 5	37,943	11,522	26,421	24,618
Leasehold improvements	20	2,044	1,153	891	672
Equipment	8, 20 or 30	36,102	29,515	6,587	6,780
Total		76,255	42,190	34,065	32,236

Amortization in 1996 was $3 million (1995—$3 million).

10. Borrowings

The Corporation borrows from the Government of Canada (Consolidated Revenue Fund) and from capital markets under provisions of the *Canada Mortgage and Housing Corporation Act* and the *National Housing Act* to finance loans and investments. The Corporation has authority to borrow a maximum of $15 billion from sources other than the government.

	1996			1995
		Fixed interest rate	Term	
	(in thousands of dollars)			
Government of Canada	7,093,971	2% to 17.96%	up to 2039	7,504,816
Capital market				
Commercial paper	1,227,878	average 3.08%	average 87 days	987,017
Medium-term borrowings	6,345,037	5.34% to 8.92%	up to 2002	4,978,858
Total	14,666,886			13,470,691

There were no Commercial Paper Borrowings in US dollars at year end (1995—$25 million carried at $34 million Canadian). Medium-term borrowings include US $300 million carried at $410 million which matures on December 1, 2000 (1995—US $300 million carried at $410 million). All foreign exchange exposure risk is fully hedged for the interest and principal repayments.

The following table provides the maturity structure of Corporate borrowings:

	Government of Canada	Capital market		Total
		Commercial paper	Medium-term borrowings	
	(in thousands of dollars)			
1997	267,316	1,227,878	70,037	1,565,231
1998	200,984		1,000,000	1,200,984
1999	194,513		1,500,000	1,694,513
2000	187,114		1,910,000	2,097,114
2001	192,867		1,265,000	1,457,867
Thereafter	6,051,177		600,000	6,651,177
Total	7,093,971	1,227,878	6,345,037	14,666,886

The interest paid to the Government of Canada in 1996 was $640 million (1995—$680 million).

The fair value of Borrowings is included in Note 23.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

11. Obligation under capital lease

The Corporation financed additions and improvements to the National Office building in 1990 with a long-term lease that is accounted for as a capital lease. The Corporation assumes ownership of the building for a cost of one dollar at the termination of the lease in 2015.

The annual lease payments are $5 million for the first 10 years and $4 million for the remaining 15 years.

The minimum lease payments are:

	(in thousands of dollars)
1997 to 2001	23,925
2002 to 2015	49,965
Total future minimum lease payments	73,890
Less interest at 11.77% and 11.57%	41,298
Present value of minimum lease payments	32,592

Interest expense in 1996 was $4 million (1995—$4 million).

12. Reserve Fund

The Reserve Fund is limited by Order-in-Council to $25 million.

13. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with certain of these entities in the normal course of business. All material related party transactions are either disclosed below or in relevant notes.

Losses on loans and real estate, interest earnings, and the amortization of modernization and improvement expenditures, relating to certain Corporate Account Assets, are recovered from the Government of Canada through the Minister's Account. The total of such recoveries, which are not considered subsidies to others, amounted to $150 million (1995—$239 million) of which $44 million (1995—$51 million) is included in Interest earned in the Corporate Account.

In accordance with fee for service agreements between the Corporation and Treasury Board, the Corporation is developing parcels of surplus government lands for residential housing projects. Development costs are capitalized and deducted from sales proceeds, the net of which is returned to the Government of Canada, nil in 1996 (1995—$1 million). Fees capitalized in 1996 amounted to $2 million (1995—nil).

14. Operating expenses

The operating expenses of the Corporation are allocated on the basis of staff utilization as follows:

	1996		1995	
	(in thousands of dollars)			
		%		%
Corporate Account	29,614	11.0	35,538	14.3
Minister's Account	117,606	43.8	92,102	37.1
Insurance and Guarantee Funds	121,510	45.2	120,403	48.6
Total	268,730	100.0	248,043	100.0

Included in Operating expenses are estimated restructuring costs of $56 million for 1996 (1995—$16 million) incurred in response to new Social Housing administrative arrangements with provincial and territorial governments and the need to achieve administrative efficiencies through a new underwritting system.

15. Taxes

Taxes include income tax and Large Corporations Tax (LCT).

The tax rate on income is 38%. The Large Corporations Tax levied on certain capital amounts was increased from a rate of 0.2% to 0.225% effective February 28, 1995.

Taxes are:

	1996			1995		
	Income tax	LCT	Total	Income tax	LCT	Total
	(in thousands of dollars)					
Corporate Account	(3,228)	421	(2,807)	(4,358)	435	(3,923)
Insurance and Guarantee Funds	10,649	1,041	11,690	8,427	1,070	9,497
Total	7,421	1,462	8,883	4,069	1,505	5,574

16. Commitments

(a) Loans and investments

Commitments outstanding for Loans and investments amounted to $126 million at December 31, 1996 (1995—$163 million).

(b) Operating leases

Minimum rental payments scheduled over the next five years on business premises and equipment under long-term non-cancellable leases are:

	1997	1998	1999	2000	2001
	(in thousands of dollars)				
Business premises	8,728	6,382	5,245	3,148	711
Equipment	14,180	3,632	669	155	
Total	22,908	10,014	5,914	3,303	711

Total Operating lease commitments at the end of 1996 were $43 million (1995—$62 million).

(c) Future contractual obligations

Total financial obligations under contracts for the Minister's Account, Social Housing programs, extend for periods up to 40 years. Uncertainty in forecasting the economic factors used to calculate the financial obligations precludes reasonable estimation beyond five years.

Estimated obligations for the next five years are:

	(in millions of dollars)
1997	1,785
1998	1,761
1999	1,785
2000	1,782
2001	1,783

17. Contingent liabilities

There were legal claims against the Corporate Account of less than $1 million (1995—nil).

There were other legal claims of $3 million at the end of 1996 (1995—$3 million), which if successfully held against the Corporation, could result in charges to the Government of Canada through the Minister's Account.

Legal claims of $83 million (1995—$82 million) are pending against the Mortgage Insurance Fund.

Due to the uncertainty of the outcome of these events, no provision for loss has been made.

18. Pension plan

The Corporation maintains an indexed, defined benefit pension plan. Retirement benefits are based on the average salary in any best five-year period and the number of years of service. The accrued pension benefits are determined using the projected benefits method prorated on service.

The Corporation's funding policy is to contribute the amount required to provide for current benefits attributed to service and to pay the unfunded pension plan liabilities over periods permitted by regulatory authorities.

Based on an actuarial valuation at January 1, 1996, and using management's best estimates, the status of the plan is:

	1996	1995
	(in thousands of dollars)	
Net assets available for benefits	732,783	653,773
Actuarial value of accrued pension benefits	631,480	589,676
Excess of net assets over actuarial value of accrued pension benefits	101,303	64,097
Annual pension cost		
Current service costs	12,803	10,436
Restructuring costs	19,593	8,041
Amortization of experience gains and losses	(6,433)	(692)
Government pension plans	2,291	2,386
Total	28,254	20,171

Although the Pension Fund financial position is determined by an independent actuary, changes in future conditions in the near term could require a material change in the recognized amounts.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

19. Investment in securities

	1996						1995	
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Book value	Market value	Book value	Market value
	(in millions of dollars)							
Mortgage Insurance Fund								
Securities issued or guaranteed by								
Canada	143	127	256	987	1,513	1,643	1,415	1,483
Provinces		119		243	362	391	273	286
Other	133	22	34	76	265	280	230	241
Total	276	268	290	1,306	2,140	2,314	1,918	2,010
Other funds								
Securities issued or guaranteed by								
Canada			7	15	22	25	38	40
Provinces				13	13	14	20	21
Other	5	7			12	12	1	1
Total	5	7	7	28	47	51	59	62
Total	281	275	297	1,334	2,187	2,365	1,977	2,072

Sales to acquire more attractive alternative investments during 1996 resulted in a gain of less than $1 million (1995—gain of $13 million). These totals are included in Income from Investments in the current year.

Investment in Securities yielded 7.5% (1995—8.4%).

The fair value of Investment in Securities is included in Note 23.

20. Actuarial valuation of the Mortgage Insurance Fund

An actuarial study of the Fund as at September 30, 1996 disclosed that the Fund had a surplus of $2 million (September 30, 1995—$24 million deficit).

Although the Mortgage Insurance Fund financial position is determined annually by an independent actuary, changes in future conditions in the near term could require a material change in the recognized amounts. It is not possible to determine the magnitude of any such changes as they relate to general economic conditions within Canada.

21. Insurance and guarantees in force

(a) Mortgage Insurance Fund

Under Section 21 of the *National Housing Act*, the aggregate outstanding amount of all loans for which the insurance policies are issued may not exceed $150 billion. As at December 31, 1996, insurance policies in force totalled approximately $131 billion (1995—$118 billion).

(b) Mortgage-backed Securities Guarantee Fund

At December 31, 1996, guarantees in force totalled approximately $14 billion (1995—$17 billion).

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

22. Insurance and Guarantee Funds

BALANCE SHEET
(in thousands of dollars)

	Mortgage Insurance Fund		Mortgage-backed Securities Guarantee Fund		Rental Guarantee Fund	
	1996	1995	1996	1995	1996	1995
ASSETS						
Investment in securities	2,140,442	1,917,877	46,943	46,564		12,541
Real estate	298,719	306,398				
Mortgages	14,019	15,791				
Accounts receivable and other assets	847	4,397				
Deferred income taxes	24,821	14,035	143	227		
Due from (to) Corporate Account	24,172		(1,943)			
	2,503,020	2,258,498	45,143	46,791		12,541
LIABILITIES						
Unearned premiums and guarantee fees	1,725,302	1,505,839	15,613	20,049		
Provision for claims	742,733	721,807				
Due to (from) the Receiver General for Canada		13,446		(125)		(13)
Accounts payable and accrued liabilities	16,887	8,863				96
Due to (from) Corporate Account		436		3,734		(288)
	2,484,922	2,250,391	15,613	23,658		(205)
SURPLUS	18,098	8,107	29,530	23,133		12,746
	2,503,020	2,258,498	45,143	46,791		12,541

The Rental Guarantee program no longer exists. Residual cash assets of $13 million were returned to the Consolidated Revenue Fund during 1986.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

22. Insurance and Guarantee Funds—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS (DEFICIT)
(in thousands of dollars)

	Mortgage Insurance Fund		Mortgage-backed Securities Guarantee Fund		Rental Guarantee Fund	
	1996	1995	1996	1995	1996	1995
Revenues						
Earned premiums and guarantee fees	350,957	344,092	7,999	8,467		
Application fees	40,633	35,895	511	429		
Income from investments	151,094	149,217	3,367	3,344	374	363
Other	2,023	2,563			30	530
	544,707	531,767	11,877	12,240	404	893
Expenses						
Loss on claims	386,345	304,578	(37)	263		439
Operating expenses	119,888	118,699	1,486	1,530	136	174
Adjustment to provision for claims	20,926	71,998				
	527,159	495,275	1,449	1,793	136	613
Income before the undernoted	17,548	36,492	10,428	10,447	268	280
Adjustment to premium deficiency		55,062				
Income before taxes	17,548	91,554	10,428	10,447	268	280
Taxes	7,557	5,479	4,031	3,897	102	121
Net income	9,991	86,075	6,397	6,550	166	159
Surplus (deficit)						
Balance, beginning of year	8,107	(77,968)	23,133	16,583	12,746	12,587
Assets returned to the Government of Canada					(12,912)	
Balance, end of year	18,098	8,107	29,530	23,133		12,746

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

22. Insurance and Guarantee Funds—*Concluded*

STATEMENT OF CHANGES IN FINANCIAL POSITION
(in thousands of dollars)

	Mortgage Insurance Fund		Mortgage-backed Securities Guarantee Fund		Rental Guarantee Fund	
	1996	1995	1996	1995	1996	1995
Operating activities						
Premiums and guarantee fees received	570,421	444,448	3,562	3,074		
Application fees received	40,633	35,895	511	429		
Investment income received	145,426	150,660	2,648	3,052	422	331
Net claims	(350,802)	(316,983)				8,700
Operating expenses paid	(110,698)	(118,699)	(1,486)	(1,530)	(136)	(174)
Taxes paid	(32,151)	14,943	(3,821)	(3,920)	(89)	24
Other	(22,604)	(13,060)	37	(263)	(66)	438
	240,225	197,204	1,451	842	131	9,319
Investment activities						
Investment in securities	(215,617)	(201,895)	340	(4,039)	12,493	(9,383)
Assets returned to the Government of Canada					(12,912)	
Increase (decrease) in Due from Corporate Account	24,608	(4,691)	1,791	(3,197)	(288)	(64)

CANADA MORTGAGE AND HOUSING CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Concluded*

23. Fair value of financial instruments

The amounts set out below represents the fair values of on- and off-balance sheet financial instruments of the Corporation using the valuation method s and assumptions as referred to below. Fair value amounts are designed to represent estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties.

Fair value of financial instruments

	1996			1995		
	Book value	Fair value	Fair value over (under) Book value	Book value	Fair value	Fair value over (under) Book value
	(in thousands of dollars)					
Corporate Account						
Assets						
Loans	12,307,745	13,944,413	1,636,668	10,526,237	11,973,409	1,447,172
Cash and short-term investments	227,980	227,964	(16)	722,083	727,292	5,209
Accounts receivable	87,776	87,776		71,923	71,923	
Liabilities						
Borrowings from the Government of Canada	7,093,971	7,014,648	(79,323)	7,504,816	6,871,114	(633,702)
Capital market borrowings	7,572,915	7,892,387	319,472	5,965,875	6,085,146	119,271
Accounts payable and accrued liabilities	323,183	323,183		301,801	301,801	
Off-balance sheet						
Derivative financial instruments						
In a net receivable position		139,359			92,495	
In a net payable position		114,386			46,019	
Insurance and Guarantee Funds						
Assets						
Investment in securities	2,187,385	2,364,895	177,510	1,976,982	2,071,800	94,818
Mortgages	14,019	14,019		15,791	15,791	
Accounts receivable and other assets	847	847		4,397	4,397	
Liabilities						
Accounts payable and accrued liabilities	16,887	16,887		8,959	8,959	

Fair values are based on a range of valuation methods and assumptions.

The estimated fair value of the following assets and liabilities is equal to book value as the items are short-term in nature:

Corporate Account

- Cash
- Accounts receivable
- Capital market borrowings (Short-term)
- Accounts payable and accrued liabilities

Insurance and Guarantee Funds

- Accounts receivable and other assets
- Accounts payable and accrued liablities

Fair value of the following assets and liabilities is determined from quoted market prices:

Corporate Account

- Short-term investments
- Capital market borrowings (Medium-term)

Insurance and Guarantee Funds

- Investments in securities
- Mortgages

Fair value of the following assets ans liabilities is estimated using discounted cash flow analysis:

Corporate Account

- Loans
- Borrowings from the Governement of Canada
- Off-balance sheet derivative financial instruments

CANADA PORTS CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID ANDERSON, P.C., M.P.,
MINISTER OF TRANSPORT

We have audited the balance sheet of Canada Ports Corporation as at December 31, 1996 and the statements of income and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Arthur Andersen & Co.
Chartered Accountants

Ottawa, Canada
March 3, 1997

BALANCE SHEET
AS AT DECEMBER 31, 1996
(in thousands of dollars)

ASSETS	1996	1995
Current		
Cash	988	2,567
Short-term investments (Note 4)	40,498	29,642
Accounts receivable	10,280	9,282
Due from Canada		1,921
Materials and supplies	2,878	2,875
	54,644	46,287
Investments (Note 4)	16,900	16,836
Capital assets (Note 5)	108,077	103,329
	179,621	166,452
Interport Loan Fund (Note 10)	91,979	98,648
	271,600	265,100

LIABILITIES	1996	1995
Current		
Accounts payable and accrued liabilities (Note 6)	20,048	15,731
Due to Interport Loan Fund (Note 7)	2,030	1,722
	22,078	17,453
Accrued employee benefits	2,080	1,913
Deferred revenues		295
Due to Interport Loan Fund (Note 7)	63,599	59,729
Long-term debt (Note 8)	171,780	179,863
	259,537	259,253
Contingencies (Notes 13 (c), 14 and 15)		
DEFICIENCY OF CANADA		
Contributed capital	111,672	111,672
Deficit (Note 9)	(191,588)	(204,473)
	(79,916)	(92,801)
	179,621	166,452
Interport Loan Fund (Note 10)	91,979	98,648
	271,600	265,100

The accompanying notes are an integral part of these financial statements.

On behalf of the Board:

JAMES B. POWERS
Acting Chairman

J. RON LONGSTAFFE
Director

CANADA PORTS CORPORATION—*Continued*

STATEMENT OF INCOME AND DEFICIT
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Revenue from operations	59,026	60,135
Operating and administrative expenses	26,140	26,658
Depreciation	4,580	4,597
Municipal grants and taxes	2,542	2,675
	33,262	33,930
Income from operations	25,764	26,205
Investment income	3,969	4,162
Interest expense	(17,532)	(17,738)
Parliamentary appropriation (Note 12)	1,000	
Net income for the year before the undernoted items	13,201	12,629
Workers' compensation benefits		(1,283)
Net income for the year	13,201	11,346
Deficit at beginning of the year		
As previously reported	(207,147)	(216,759)
Change in accounting policy (Note 3)	2,674	1,111
As restated	(204,473)	(215,648)
Dividend to Canada	(316)	(171)
Deficit at end of the year	(191,588)	(204,473)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Operating activities		
Net income for the year	13,201	11,346
Items not affecting cash		
Depreciation	4,580	4,597
Other	(23)	(600)
Net change in non-cash components of working capital	3,221	(2,363)
Cash provided by operating activities	20,979	12,980
Financing activities		
Capital grants	2,500	
Changes in amount due from Canada	1,921	(913)
Transfers from Interport Loan Fund	5,900	10,145
Repayment of transfers from Interport Loan Fund	(1,722)	(1,340)
Issuance of long-term debt	9,000	11,434
Repayment of long-term debt	(17,077)	(17,607)
Dividend paid to Canada	(316)	(171)
Cash provided by financing activities	206	1,548
Investing activities		
Additions to capital assets	(11,934)	(9,938)
Change in construction payables	90	(445)
Decrease (increase) in long-term investments	(64)	1,578
Cash required by investing activities	(11,908)	(8,805)
Increase in cash and short-term investments	9,277	5,723
Cash and short-term investments at beginning of year	32,209	26,486
Cash and short-term investments at end of year	41,486	32,209

The accompanying notes are an integral part of these financial statements.

CANADA PORTS CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996

1. *Canada Ports Corporation Act*

Canada Ports Corporation (the Corporation) was established under the *Canada Ports Corporation Act* (the Act), to administer, manage and control Canadian harbours, and any other harbour, work or property of Canada transferred by the Governor in Council. The Corporation is named in Part II of Schedule III of the *Financial Administration Act* and is exempt from income tax.

The Corporation has direct responsibility for operating eight divisional ports and has a wholly-owned subsidiary, Ridley Terminals Inc. (RTI), a coal terminal facility at Prince Rupert. The Act provides for the establishment of local port corporations to manage and operate additional selected ports. The Act also charges the Corporation with certain responsibilities respecting these ports, particularly concerning capital projects. In addition, the Corporation administers the Interport Loan Fund on behalf of itself and the local port corporations.

On June 10, 1996 Bill C-44, *Canada Marine Act*, received First Reading in the House of Commons. This proposed Act repeals the *Canada Ports Corporation Act* and dissolves the Corporation whose assets and obligations are to devolve to the Crown under the administration of the Minister of Transport (see Note 15).

2. Significant accounting policies

(a) Financial statements

The financial statements of the Corporation include the accounts of the divisional ports under its administration and of RTI. The activities of the local port corporations are excluded from the financial statements from the date of their establishment. As the earnings of the Interport Loan Fund do not automatically accrue to the Corporation, the assets, liabilities, revenues and expenses of the Fund are not consolidated (see Note 10).

(b) Investments

The short-term investments are carried at the lower of amortized cost, whereby premiums or discounts from par value are amortized over the periods to maturity, or market. Long-term investments are carried at the lower of amortized cost or market if a permanent decline in value exists.

(c) Materials and supplies

Materials and supplies consist of supplies, consumables and repair parts. They are valued at the lower of cost or market.

(d) Capital assets

Capital assets are recorded at cost, with the exception of those transferred to the Corporation from Canada. The assets transferred from Canada are recorded at appraised or fair market value established at the time of transfer. Government grants received towards capital projects are deducted from the cost of the related capital assets.

Depreciation of capital assets is calculated on the straight-line basis commencing with the year the asset becomes operational, using rates based on the estimated remaining useful lives of the assets.

(e) Pension plans

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employee's contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account. Employees of RTI are covered separately by a contributory defined-benefit plan.

(f) Municipal grants and taxes

The expense for municipal grants and taxes is based on estimated municipal assessments, adjusted in accordance with the *Municipal Grants Act* where applicable. Municipal grants are finalized after the amounts have been audited by the Municipal Grants Division of Public Works and Government Services Canada. Any adjustments upon finalization of the grants are reflected in the accounts in the year of settlement.

(g) Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees under its collective agreements, or in accordance with its policy.

(h) Revenue recognition

Revenue is recognized as the related services are provided. RTI's coal throughput revenue is recorded at 50% of the contracted throughput rate at the time the coal is received at the terminal, with the balance being recorded at the time of ship loading. RTI's throughput agreements with its two main customers are in place until March 31, 1998 and March 31, 1999. These agreements provide for guaranteed delivery of an annual minimum tonnage to the terminal and under the terms of one of the agreements, shortfall payments may be required on a quarterly basis subject to a final adjustment at the end of the coal year (April 1 to March 31). Revenues resulting from any estimated shortfall in tonnage are recognized in the current year. Any difference between estimated shortfall revenue and required payments is recorded as an account receivable or an accrued liability.

3. Change in accounting policy

During the year RTI changed its revenue recognition accounting policy to record estimated shortfall revenue in the current year. In prior years no shortfall revenue was recognized until the end of the coal year (April 1 to March 31) when the actual amount of shortfall revenue was known. This change has been applied retroactively. The opening deficit as at January 1, 1995 decreased by $1,111,000 as a result of recording estimated shortfall revenue in prior periods. The effect of this change in accounting policy has been to increase net income for the year ended December 31, 1996 by $562,000 (1995—$1,563,000).

CANADA PORTS CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

4. Investments

Short-term investments consist of $40,498,000 of Canada treasury bills (1995—$29,642,000). As at December 31, 1996 and 1995, the market value of the short-term investments approximates their amortized cost.

Long-term investments of $16,900,000 (1995—$16,836,000) are Canada bonds and as at December 31, 1996, their market value is $21,469,000 (1995—$21,014,000).

5. Capital assets

(a) Summary

		1996			1995
	Depreciation rates	Cost or appraised value	Accumulated depreciation and write downs	Net	Net
	%	(in thousands of dollars)			
Land		7,363		7,363	6,682
Dredging	2.5-6.7	16,123	10,123	6,000	6,168
Berthing structures	2.5-10	51,211	26,844	24,367	24,639
Buildings	2.5-10	34,537	15,646	18,891	19,420
Coal terminal facility	4-33	22,513	4,414	18,099	19,002
Utilities	3.3-10	8,562	3,523	5,039	5,355
Roads and surfaces	2.5-10	5,878	3,745	2,133	2,477
Machinery and equipment	5-100	31,326	22,863	8,463	8,990
Office furniture and equipment	20- 33	4,054	3,898	156	505
Works under construction		17,566		17,566	10,091
		199,133	91,056	108,077	103,329

(b) Capital grants

In 1996, the Corporation has received capital grants towards the construction of capital assets totalling $2,500,000 (1995—$0) of which $1,500,000 was from the Government of Canada.

6. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are deferred revenues of $665,000 (1995—$746,000), the current portion of long-term debt of $83,000 (1995—$77,000) and the estimated termination costs upon dissolution of the Corporation of $6,575,000 (1995—$0) of which $404,000 has been expensed in the accompanying financial statements. The balance has been funded by transfers from the Interport Loan Fund and charges to the local port corporations. These termination costs include employee termination costs, but do not include lease termination costs (see Note 13 (c)) nor other costs of dissolution (see Note 15).

7. Due to Interport Loan Fund

The Interport Loan Fund has provided long-term financing for the coal terminal and mixed cargo terminal projects at the Port of Belledune and the Alouette project at the Port of Sept-Îles as follows:

	1996	1995
	(in thousands of dollars)	
(a) Transfers to the Port of Belledune bearing interest at 7.01% to 11.47%, repayable in blended annual instalments of principal and interest of $3,985,000 and maturing between December 31, 2012 and 2015	34,374	29,202
(b) Transfers to the Port of Sept-Îles bearing interest at 7.91% to 9.20%, repayable primarily in blended annual instalments of principal and interest of $3,836,000 and maturing December 31, 2011	31,255	32,249
	65,629	61,451
Less: current portion	(2,030)	(1,722)
	63,599	59,729

Principal repayment requirements over the next five years amount to $2,030,000 in 1997, $2,209,000 in 1998, $2,404,000 in 1999, $2,616,000 in 2000 and $2,847,000 in 2001.

8. Long-term debt

	1996	1995
	(in thousands of dollars)	
(a) Loan from Canada, bearing interest at 6.44%, repayable in twenty blended annual instalments of principal and interest of $106,000 and maturing on December 31, 2000.	363	440
(b) RTI note, repayable on August 12, 1998, and bearing interest at 6.93% payable annually.	165,000	165,000
(c) RTI note, under a revolving credit facility, repayable by August 12, 1998, and bearing interest at Canadian inter-bank bankers' acceptance rate plus 0.20% payable at maturity of note	6,500	14,500
	171,863	179,940
Less: current portion	(83)	(77)
	171,780	179,863

Principal repayment requirements over the next four years amount to $83,000 in 1997, $171,588,000 in 1998, $93,000 in 1999 and $99,000 in 2000.

The debt of RTI which is with Export Development Corporation (EDC) consists of notes. Under the financing arrangement with EDC, the fixed rate note is repayable in 1998, while notes issued under the revolving credit facility, at variable rates, are repayable by August 12, 1998.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

The revolving credit facility provides for notes to be issued up to an aggregate maximum of $41 million. These notes may be for a term of one to twelve months and may roll over on maturity date with new face values and new interest rates, with final repayment of all amounts under the credit facility due on August 12, 1998. As at December 31, 1996, the interest rate on the note under the credit facility is approximately 3.3% (1995—6.3%).

The financing with EDC is guaranteed unconditionally by Canada to a maximum of $230 million and is secured by a $250 million collateral demand debenture over all present and future assets of RTI.

9. Deficit

At the incorporation of RTI in 1981, 50% of RTI was owned by the Corporation while the remaining 50% was owned by an unrelated party. The shareholders' agreement of RTI provided a condition for the unrelated party to sell its shares to the Corporation in 1991. On July 30, 1991, the Corporation purchased the remaining 50% ownership in RTI and RTI became a wholly-owned subsidiary of the Corporation. The share purchase of $58.5 million was paid in cash and was fully financed by Canada. The excess of the purchase price, over the assets acquired of $31.7 million less the liabilities assumed of $229.1 million, resulted in a loss on acquisition of RTI of $255.9 million which forms the most significant component of the deficit of the Corporation.

10. Interport Loan Fund

In 1988, authority was granted by Canada to the Corporation to establish an Interport Loan Fund (the Fund). This Fund is administered by the Corporation and was established to provide financing for financially viable capital projects of the Corporation and local port corporations. Financing is provided by way of transfers to divisional ports managed by the Corporation and by way of loans to local port corporations. Transfers and loans bear interest at the Crown corporation lending rate, the rate in effect from time to time between Canada and Crown corporations. Until December 31, 1994, earnings of the Fund were, pursuant to the terms and conditions under which the Fund was established, restricted to the uses for which the Fund was established. During 1995, the terms and conditions were amended to provide that the remaining earnings of the Fund of a year, after providing for the dividend to Canada, be transferred to the Corporation.

The balance sheet of the Fund as at December 31 shows:

	1996	1995
	(in thousands of dollars)	
Assets		
Current		
Cash and investments	28,319	32,897
Transfers receivable	2,030	1,722
Loans receivable		175
	30,349	34,794
Transfers receivable	63,599	59,729
Loans receivable		6,143
Allowance for doubtful accounts	(1,969)	(2,018)
	91,979	98,648
Liability		
Current		
Accounts payable	2,328	2,104
Fund Balance		
Contributed capital	70,332	76,650
Retained earnings	19,319	19,894
	89,651	96,544
	91,979	98,648

The investments of the Fund, shown at amortized cost, are direct and guaranteed securities of Canada. As at December 31, 1996 and 1995, the market value of the investments approximates their amortized cost.

In 1996, the forgiveness of the Port of Québec Corporation's debt of $6.3 million was approved by the Government of Canada. In 1997, Treasury Board approved that this amount be applied against the Crown's investment in the Fund which is expected to be approved by the Government of Canada in March 1997. Accordingly, the debt forgiveness has been recorded as a reduction in the Fund's contributed capital.

In 1996, the Fund advanced $5.9 million (1995—$10.1 million) to the Port of Belledune for a capital project.

The Fund is committed to provide financing of $7.7 million in 1997 for a capital project at the Port of Belledune.

In accordance with the terms and conditions under which the Fund was established, the Corporation is required to pay a dividend from the Fund in respect of the 1996 fiscal year. This dividend, payable on March 31, 1997, amounts to approximately $4.8 million and will be applied against the retained earnings.

CANADA PORTS CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

The statement of income and retained earnings of the Fund is as follows:

	1996	1995
	(in thousands of dollars)	
Interest income	7,135	7,927
Operating and administrative expenses	56	497
Net income for the year	7,079	7,430
Retained earnings at beginning of the year	19,894	19,447
Dividend to Canada	(5,326)	(4,879)
Transfer to the Corporation	(2,328)	(2,104)
Retained earnings at end of the year	19,319	19,894

11. Pension plans

As at December 31, 1996, the updated actuarial reports of RTI's contributory plan indicate that the actuarial present value of the accrued pension benefits amounts to $8,563,000 (1995—$7,193,000) and the value of the pension fund assets, at market value, amounts to $8,569,000 (1995—$6,675,000). RTI's pension expense for 1996 of $652,000 (1995—$616,000) is actuarially determined.

12. Related party transactions

Through common ownership, the Corporation is related to all Government of Canada created departments, agencies and Crown corporations.

In accordance with the Act, operating and administrative costs incurred by the Corporation in the amount of $4,230,000 have been recovered from the local port corporations in 1996 (1995—$5,356,000). These recoveries are offset against the related expenses. Operating expenses include rental costs of $1,777,000 (1995—$1,889,000) charged by a local port corporation. At December 31, 1996, $254,000 (1995—$466,000) of these rental costs are included in accounts payable and accrued liabilities. Also included in accounts payable and accrued liabilities is $4,453,000 (1995—$4,493,000) of interest payable to EDC, a Crown corporation (see Note 8).

Investment income of $3,891,000 (1995—$4,100,000) was earned on Canada securities and interest charges of $29,000 (1995—$33,000) were paid to Canada. In 1996, a grant of $1,000,000 was received from the Government of Canada to assist in defraying the Port of Churchill's anticipated operating deficit for the 1996 season.

Details of other transactions with the Government of Canada are disclosed in Notes 4, 5 (b), 8, 9, 10 and 13 (b).

13. Commitments

(a) Contractual obligations for the completion, construction and purchase of capital assets are estimated at $1,466,000 of which most will be expended in the year ending December 31, 1997.

(b) RTI leases from the Prince Rupert Port Corporation the land on which the coal terminal facility is constructed. The lease is for twenty-five years starting March 31, 1984, with a twenty-year renewal term beginning March 31, 2009. Lease payments are based on throughput charges per tonne which are subject to escalation provisions relating to increases in the Canadian Consumer Price Index for each year.

(c) The Corporation leases premises under an agreement which expires September 30, 2005. The future rent payable to the expiry date is approximately $799,000 in 1997, $681,000 in 1998, $885,000 per year from 1999 to 2004 and $663,000 in 2005. No provision has been made for future lease payments upon dissolution as the ultimate utilization of the premises is not determinable at this time.

(d) In accordance with Ports Canada policy respecting dividends to Canada, the Corporation is required to pay a dividend in respect of the 1996 fiscal year. This dividend, payable on March 31, 1997, amounts to approximately $377,000 and will be applied against the Corporation's deficit.

14. Contingencies

Claims aggregating approximately $5,639,000 in respect of lawsuits, guarantees, employee agreements, damages allegedly suffered on the Corporation's property and sundry other matters in dispute have been received by the Corporation but are not reflected in the accounts. In the opinion of the Corporation, the final outcome of such claims should not result in any material financial liability.

Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and can be used only in the event of illness. The amount of accumulated sick leave entitlements which will become payable in the future cannot reasonably be determined. Payments of sick leave benefits are included in current operations.

In the normal course of business, the Corporation is exposed to potential environmental issues. A contaminated soil situation has been identified at one of the divisional ports for which the removal and remediation costs are estimated at $1,000,000. At this time, the Corporation has not determined the ultimate responsibility for the costs of remediation and therefore no provision has been recorded. The ultimate effect of other environmental matters is not determinable at this time, and as such, no provision has been made in the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Concluded*

15. *Canada Marine Act*

Under the proposed *Canada Marine Act,* each of the eight divisional ports becomes either a port authority or a public port as defined in the proposed Act. RTI is to become a Crown corporation after the dissolution of the Corporation and the Minister of Transport is named the appropriate minister for RTI for the purposes of the *Financial Administration Act*. The Corporation's present administrative office will be wound-up on the dissolution of the Corporation and the Corporation's remaining assets and obligations will devolve to the Crown under the administration of the Minister of Transport. The *Canada Marine Act* may be proclaimed and come into force during 1997, however, the precise date is not determinable at this time.

The effects of the dissolution of the Corporation are not fully known at this time. No provision has been made with respect to differences between the carrying values of assets and obligations and those values which may ultimately arise on the transfer of the eight divisional ports and RTI, as the differences, if any, are not determinable at this time. A provision for determinable amounts relating to the wind-up of the administrative office has been made (see Notes 6 and 13 (c)).

CANADA POST CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management and the Board of Directors are responsible for the consolidated financial statements and all other information presented in this Annual Report. The *Financial Administration Act* and regulations require the consolidated financial statements to be prepared in accordance with generally accepted accounting principles. Management has been proactive in disclosing information which typically would only be required to be disclosed by enterprises, the securities of which are traded in a public market.

Where appropriate, the consolidated financial statements include amounts based on management's best estimates and judgements. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

In support of its responsibilities, management maintains financial and management control and information systems and management practices which are of high quality, consistent with reasonable cost. These systems and practices are designed to provide reasonable assurance that relevant and reliable financial information is produced and the assets are safeguarded and controlled in accordance with the *Financial Administration Act* and regulations, as well as the *Canada Post Corporation Act* and by-laws of the Corporation. Internal audits are conducted to assess management systems and practices, and reports are issued to the Management Executive Committee and the Audit Committee of the Board.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit Committee, which is composed of five directors, none of whom is an employee of the Corporation. The Audit Committee meets regularly to oversee the internal audit activities of the Corporation, and at least annually to review the consolidated financial statements and the external auditors' report thereon and recommend them to the Board of Directors for approval.

Canada Post Corporation is a Crown corporation named in Part II of Schedule III of the *Financial Administration Act*. Accordingly, each year, the Governor in Council appoints the Corporation's external auditors after giving consideration to the recommendations of the Corporation's Audit Committee on this matter. Deloitte & Touche were reappointed for the current fiscal year. They audit the consolidated financial statements and report to the Audit Committee as well as the Minister responsible for Canada Post Corporation. In contrast, the Auditor General of Canada is appointed by the Governor in Council as the auditor, or a joint auditor, of each parent Crown corporation named in Part I of Schedule III of the *Financial Administration Act*.

All parent Crown corporations are subject to a special examination at least once every five years and at such additional times as the Governor in Council, the appropriate Minister or the board of directors of the corporation to be examined may require. The special examination, a type of value-for-money audit, serves to provide an independent opinion to the board of directors on whether the corporation's financial and management control and information systems and management practices were maintained in a manner that provided reasonable assurance that: the assets of the corporation were safeguarded and controlled; the financial, human and physical resources of the corporation were managed economically and efficiently; and the operations of the corporation were carried out effectively. A special examination is carried out by the auditor of a parent Crown corporation. The Auditor General of Canada jointly with Ernst & Young carried out the last special examination in respect of the Corporation. Their examination covered the period from November 17, 1993, to March 31, 1994.

Georges C. Clermont
President and Chief Executive Officer

Ian A. Bourne
Senior Vice-President and Chief Financial Officer

AUDITORS' REPORT

TO THE MINISTER RESPONSIBLE
FOR CANADA POST CORPORATION

We have audited the consolidated balance sheet of Canada Post Corporation as at March 29, 1997, and the consolidated statements of income and retained earnings and of cash flows for the year then ended (pages 33 to 43). These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 29, 1997, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Post Corporation Act* and the by-laws of the Corporation and its wholly-owned subsidiaries.

Deloitte & Touche
Chartered Accountants

Ottawa, Canada
April 21, 1997

CANADA POST CORPORATION—*Continued*

CONSOLIDATED BALANCE SHEET
YEAR ENDED
(in thousands of dollars)

ASSETS	March 29 1997	March 30 1996
Current assets		
Cash and short-term investments (Note 3)	392,570	58,772
Accounts receivable	276,744	250,707
Prepaid expenses	67,184	65,982
	736,498	375,461
Segregated cash and investments (Note 4)	292,583	253,284
Capital assets (Note 5)	1,560,272	1,702,170
Other assets (Note 6)	136,429	184,464
	2,725,782	2,515,379

LIABILITIES AND EQUITY OF CANADA	March 29 1997	March 30 1996
Current liabilities		
Accounts payable and accrued liabilities	313,986	300,501
Salaries and benefits payable	285,774	261,396
Deferred revenues	180,651	169,693
Outstanding money orders	36,809	37,744
Current portion of long-term debt	84,128	23,110
	901,348	792,444
Long-term debt (Note 7)	171,474	255,884
Termination and post-retirement benefits	524,222	440,836
	1,597,044	1,489,164
Equity of Canada (Note 8)	1,128,738	1,026,215
	2,725,782	2,515,379

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board:

ANDRÉ OUELLET
Chairman of the Board of Directors

KAY LeMESSURIER
Chairman of the Audit Committee

CANADA POST CORPORATION—*Continued*

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED
(in thousands of dollars)

	March 29 1997	March 30 1996
Revenue from operations	5,085,092	4,955,915
Cost of operations		
Salaries and benefits	3,041,792	3,034,441
Amortization of capital assets	168,984	167,273
Other costs of operations	1,733,114	1,683,785
	4,943,890	4,885,499
Income from operations	141,202	70,416
Other income (expense)		
Investment and other income	17,981	4,091
Amortization of goodwill	(7,020)	(7,267)
Interest	(34,302)	(35,082)
	(23,341)	(38,258)
Income before income taxes	117,861	32,158
Provision for income taxes (Note 10)	5,338	3,977
Net income	112,523	28,181
Deficit, beginning of year	(328,957)	(357,138)
	(216,434)	(328,957)
Dividend	(10,000)	
Deficit, end of year	(226,434)	(328,957)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED
(in thousands of dollars)

	March 29 1997	March 30 1996
Cash provided by (used in)		
Operating activities		
Net income	112,523	28,181
Items not requiring cash		
Amortization of capital assets	168,984	167,273
Amortization of other assets	15,676	15,701
Loss (gain) on disposal of capital assets	2,015	(174)
Gain on disposal of long-term investment	(14,302)	
Accrued termination and post-retirement benefits	102,749	66,641
	387,645	277,622
Termination and post-retirement benefit payments	(19,363)	(24,265)
Change in non-cash working capital (Note 9)	20,647	(86,085)
	388,929	167,272
Dividend	(10,000)	
Financing activities		
Decrease in long-term debt	(23,392)	
Investing activities		
Acquisition of capital assets	(101,724)	(81,719)
Proceeds on disposal of capital assets	72,623	5,550
Proceeds on disposal of long-term investment	46,940	
Decrease (increase) in other assets	(279)	204
Increase in segregated cash and investments	(39,299)	(37,465)
	(21,739)	(113,430)
Increase in cash and short-term investments	333,798	53,842
Cash and short-term investments at beginning of year	58,772	4,930
Cash and short-term investments at end of year	392,570	58,772

The accompanying notes are an integral part of these financial statements.

CANADA POST CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 29, 1997
(amounts in thousands of dollars)

1. Incorporation

The Corporation was established by the *Canada Post Corporation Act* in 1981 to operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada. The Corporation is a Crown corporation included in Part II of Schedule III to the *Financial Administration Act* and is an agent of Her Majesty. The PCL Courier Holdings Inc. (Purolator) subsidiary is managed independently, also on a self-sustaining financial basis.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. A summary of the significant accounting policies of the Corporation follows:

(a) Consolidation

The consolidated financial statements of the Corporation include the accounts of Canada Post Corporation and its wholly-owned subsidiaries, Canada Post Systems Management Limited, CINA Holdings B.V. (up to October 31, 1996, at which point, subsequent to the sale of its interest in G. D. Net B. V., it was liquidated) and Canada Post Holdings Limited (which has a controlling interest in PCL Courier Holdings Inc.).

Goodwill arising on the acquisition of subsidiaries is amortized on a straight-line basis over 20 years.

(b) Fiscal year-end

Canada Post Corporation and its wholly-owned subsidiaries end their fiscal year on the last Saturday in March. The fiscal year ended March 29, 1997, includes 52 weeks. The fiscal year ended March 30, 1996, included 53 weeks.

In contrast, PCL Courier Holdings Inc.'s fiscal year ends on April 5, 1997, and includes 53 weeks. Its fiscal year ended on March 29, 1996, included 52 weeks.

(c) Capital assets and amortization

Land, buildings and equipment transferred from the Government of Canada on incorporation were recorded at their fair value at that date, determined as follows:

Land	—market value based on existing use
Buildings	—amortized replacement cost
Plant equipment, vehicles, sales counter and office furniture and equipment, and other equipment	—amortized replacement cost or original cost less estimated amortization

The market value of land and the amortized replacement cost of buildings transferred by the Government of Canada were determined by independent appraisals.

Acquisitions subsequent to incorporation are recorded at cost.

The Corporation has an agreement with both the National Archives of Canada and the Canadian Museum of Civilization to operate, administer and maintain a Canadian Postal Archives and a Canadian Postal Museum, respectively, containing philatelic material, postal artifacts, a postal library and exhibits that trace the history of the mail and other memorabilia. These collections, exhibits and books of undetermined value are not for resale and are recorded at a nominal cost.

Amortization is provided on a straight-line basis over the estimated useful lives of the following assets:

Buildings	30 and 40 years
Leasehold improvements	Initial fixed lease term plus period of first renewal option
Plant equipment	3 to 30 years
Vehicles (other than passenger and light-duty commercial)	6 to 10 years
Sales counter and office furniture and equipment	3 to 20 years
Other equipment	5 to 15 years

Amortization is provided on a diminishing balance basis at an annual rate of 30% for all passenger and light-duty commercial vehicles.

(d) Revenue recognition

Amounts received for which services have not been rendered prior to the end of the year are deferred.

(e) Termination and post-retirement benefits

Canada Post employees are entitled to specified termination benefits, calculated at salary levels at the time of termination, as provided under collective agreements or conditions of employment. The present value of the projected costs of termination benefits, as determined by actuarial valuation, is recorded in the accounts as a long-term liability using an accrued benefits method. Such benefits accruing to employees, as well as gains and losses arising from actuarial valuation, are included in current operations.

In addition, Canada Post provides certain health care benefits to eligible retirees. Current service costs have been determined by actuarial valuation and included in current operations using an accrued benefits method. Past service costs have also been determined by actuarial valuation and are being amortized over the expected average remaining service life of the employee population.

Purolator Courier Limited employees are not entitled to these termination and post-retirement benefits.

(f) Pension plan

Canada Post employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employees' contributions on account of current service. These contributions, which amounted to $100,353 (1996—$100,610), are included in current operations. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies or indexation payments under the *Public Service Superannuation Act*.

CANADA POST CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 29, 1997—*Continued*

Substantially all of Purolator Courier Limited's full-time and eligible part-time employees are covered by defined benefit pension plans. The cost of pension benefits earned by these employees is determined using the projected benefit method prorated on service and is charged to expense as services are rendered. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of the employee groups. The actuarial value of pension assets represents the market value of these assets. The actuarial present value of accrued pension benefits attributed to service rendered up to March 29, 1997, is $34,436 (1996—$30,200), and the approximate market value of the Company's pension fund assets as at March 29, 1997, is $34,888 (1996—$29,100).

(g) Income taxes

The Corporation follows the deferral method of income tax allocation.

(h) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, however, such differences would not be expected to have a material impact on these financial statements.

3. Cash and short-term investments

Cash and short-term investments consists of cash and investments rated R-1 with maturities, at the date of purchase, of less than 12 months. Such short-term investments are carried at cost, which approximates fair value due to the short period to maturity. The weighted average internal rate of return on the investments held as at March 29, 1997, is 3.13% (1996—5.00%).

4. Segregated cash and investments

The Corporation has segregated certain cash and investments for the sole purpose of managing cash flows relating to the employee termination benefits liability. Investments are valued at amortized cost. These investments are held in investment grade securities with maturities currently ranging from one month to 14 years. The weighted average internal rate of return on the investments held as at March 29, 1997, is 7.59% (1996—7.29%). The fair value of the investments is based on rates currently available on instruments with similar terms and maturities. The fair value of segregated cash and investments as at March 29, 1997, is $299,268 (1996—$251,884).

5. Capital assets

	1997			1996
	Cost	Accumulated amortization	Net	Net
Land	257,615		257,615	288,545
Buildings	1,187,772	628,615	559,157	591,014
Leasehold improvements	115,016	48,529	66,487	73,167
Plant equipment	753,258	427,794	325,464	369,540
Vehicles	85,692	75,408	10,284	3,083
Sales counter and office furniture and equipment	307,396	217,162	90,234	108,352
Other equipment	451,099	200,069	251,030	268,468
Collection of postal memorabilia	1		1	1
	3,157,849	1,597,577	1,560,272	1,702,170

6. Other assets

	1997	1996
Goodwill, net of accumulated amortization	116,509	123,529
Investment in G.D. Net B.V., at cost		32,638
Deferred development costs, net of accumulated amortization		8,656
Other	19,920	19,641
	136,429	184,464

CANADA POST CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 29, 1997—*Continued*

7. Long-term debt

	1997	1996
10 year loan from the Government of Canada due April 1998, interest at 9.705%	80,000	80,000
Non-redeemable bonds maturing March 2016, interest at 10.35%	55,000	55,000
US $105,000 10 year Senior Notes issued by Purolator Courier Limited due March 2004 carrying interest at 8.83%. The principal balance and interest payments for the full term were covered by cross currency interest swaps effectively converting the principal balance to $142,800 Canadian bearing interest of 11.6%		142,800
Under a refinancing agreement reached with the lenders May 3, 1996, the following terms and conditions apply: US $90,000 Senior Notes issued in two series due March 2004: Series A US $50,000 carrying interest at 10.08% with principal payments due in equal instalments over the last five years of the term and, Series B US $40,000 carrying interest at 9.83% with principal payments due over the term. The Notes are secured by substantially all of the assets of Purolator Courier Limited without recourse to Canada Post Corporation. Under the indenture, Purolator Courier Limited is subject to certain financial and other covenants throughout the term of the debt	119,408	
Purolator Courier Limited entered into a series of cross currency interest rate swaps in order to hedge the future US dollar principal and interest payments into Canadian dollars at rates varying between $1.376 and $1.348 and an effective interest rate of 11.6%.		
Subordinate notes issued by PCL Courier Holdings Inc. due October 1998, interest at 12.5%	1,194	1,194
	255,602	278,994
Less current portion	84,128	23,110
	171,474	255,884

Interest expense on long-term debt was $28,048 (1996—$28,568).

The annual amounts of principal payments to meet long-term debt obligations are as follows:

	$
1998	84,128
1999	5,322
2000	16,176
2001	27,570
2002	23,056
2003 and thereafter	99,350
	255,602

The fair value of the 10 year loan from the Government of Canada due April 1998 and of the non-redeemable bonds maturing March 2016 is based on rates currently available to the Corporation for debt with similar terms and maturity. Their fair value as at March 29, 1997, is respectively $84,336 and $71,434 (1996—$85,232 and $65,714).

Purolator has determined the fair value of the Senior Notes at March 29, 1997, as $133,412 (1996—$158,661) by calculating the cost of repaying the notes, as specified in the agreement with the noteholders. It is not Purolator's intention to repay this debt or these swaps prior to their maturity dates at which time it will be settled for their stated values in the financial statements.

Purolator has two currency swaps outstanding. The first swap hedges the principal and interest payments of the original Senior Notes. In May 1996, Purolator entered into an additional currency swap arrangement to hedge the changes in the terms of the Senior Notes. The fair value for the swaps at March 29, 1997, is a loss of $9,158 (1996—loss of $2,662).

The carrying value of the subordinate notes issued by PCL Courier Holdings Inc. is considered to approximate its fair value.

8. Equity of Canada

	1997	1996
Contributed capital	1,355,172	1,355,172
Deficit	(226,434)	(328,957)
Equity of Canada	1,128,738	1,026,215

The *Canada Post Corporation Act* provides for the establishment of a share capital structure. The Corporation is authorized to issue shares to the Government of Canada based on the net asset value of the Corporation on the date of the first issue of shares, as determined by the Board of Directors, with the approval of the Treasury Board. No such shares have been issued.

CANADA POST CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 29, 1997—*Continued*

9. Change in non-cash working capital

	1997	1996
Decrease (increase) in accounts receivable	(26,037)	29,988
Increase (decrease) in accounts payable and accrued liabilities	13,485	(70,248)
Increase (decrease) in salaries and benefits payable	24,378	(44,743)
Decrease (increase) in other non-cash working capital	8,821	(1,082)
	20,647	(86,085)

10. Income taxes

On March 27, 1994, Canada Post Corporation became a prescribed Crown corporation for tax purposes and as such is subject to federal income taxation under the *Income Tax Act*.

The tax basis of Canada Post Corporation's assets was established at an amount that exceeded the recorded carrying value. The future benefit related to this excess has not been recorded in the consolidated financial statements but will be realized as additional tax deductions over a period of years.

The income tax provision consists of the Large Corporations Tax.

As at March 29, 1997, consolidated tax loss carry-fowards in the amount of $421,000 (1996—$440,000) are available to reduce future income taxes. The benefit of these tax losses and net unclaimed tax deductions will be recognized as a reduction of income tax expense in the consolidated financial statements in the year they are realized.

11. Contingencies

(a) Two complaints have been filed with the Canadian Human Rights Commission alleging discrimination by the Corporation concerning work of equal value. The Corporation is presenting its evidence before the Tribunal with respect to one complaint and the Commission has not begun its investigation of the second. The outcome of these complaints is not currently determinable. Settlement, if any, arising from resolution of these matters, will be recovered in future postal rates (as determined in accordance with the *Canada Post Corporation Act*) and/or from the Government of Canada. Accordingly, no amounts are recorded in these financial statements.

(b) The Corporation is involved in various claims and litigation in the normal course of business for which provisions have been made to the extent determinable.

(c) Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and can be used only in the event of illness. The amount of accumulated sick leave entitlements which will become payable in future years cannot reasonably be determined. Payments of sick leave benefits are included in current operations.

12. Commitments

The Corporation's future minimum payments with respect to computing and communications utility services as well as facilities and other operating leases with terms in excess of one year, are as follows:

	$
1998	305,849
1999	289,743
2000	216,560
2001	139,376
2002	84,038
2003 and thereafter	229,567
	1,265,133

13. Related-party transactions

The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these consolidated financial statements.

(a) Payments on behalf of postal users

Where Government policy requires the Corporation to provide services at rates less than costs to the publications industry, and for concessionary services such as Government free mail, literature for the blind and Northern air stage services, the Government of Canada compensates the Corporation for foregone postage revenue from those sources. Revenues amounting to $83,769 (1996—$96,946) are included in revenue from operations.

(b) Real property

The Corporation has incurred net operating costs of $35,864 (1996—$51,337) in respect of real property agreements with Public Works and Government Services Canada.

(c) Other

The Corporation has other transactions with the Government of Canada, its agencies and other Crown corporations in the normal course of business.

As a result of all the above transactions, the amounts due from and to these parties are $26,745 (1996—$23,329) and $34,363 (1996—$42,541) respectively.

14. Financial instruments—Other

(a) Fair values

The amounts reported in the consolidated balance sheet for all other financial instruments approximate their fair values.

(b) Concentration of credit risk

The Corporation does not believe it is subject to any significant concentration of credit risk.

The amount reported in the consolidated balance sheet for accounts receivable includes the impact of netting $216,747 of gross accounts payable to foreign postal administrations against $243,699 of gross accounts receivable from foreign postal administrations ($201,045 of gross accounts payable and $217,416 of gross accounts receivable in 1996), the basis used for these international settlements.

CANADA POST CORPORATION—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 29, 1997—*Concluded*

15. Disaggregated financial information

The Corporation has two operating segments: Canada Post and PCL Holdings Inc. (Purolator). These operating segments are determined on the basis of the legal entities which are managed independently, each on a self-sustaining financial basis.

The Corporation has three main product/service lines: communications, advertising and physical distribution. Communications consists of lettermail, hybrid products and electronic services. Advertising consists of admail and publications. Physical distribution consists of courier, expedited delivery, and parcels.

The Canada Post segment derives its revenues from all three product/service lines. The PCL Courier Holdings Inc. segment derives its revenues exclusively from physical distribution.

The accounting policies of the segments are the same as those described in the significant accounting policies (Note 2).

Transactions occur between the two independent segments, Canada Post and Purolator, at normal commercial prices and terms comparable to those given to other customers and suppliers and without subsidy between the two segments. On this basis, Canada Post paid Purolator $15,593 for air linehaul in 1997 (1996—$13,725).

No individual customer's purchases account for more than 10% of revenues.

	1997			1996		
	Canada Post (52 weeks)	PCL Courier Holdings Inc. (53 weeks)	Canada Post Corporation	Canada Post (53 weeks)	PCL Courier Holdings Inc. (52 weeks)	Canada Post Corporation
Revenue from operations	4,325,044	760,048	5,085,092	4,277,666	678,249	4,955,915
Income before the undernoted items	260,570	42,596	303,166	203,824	26,598	230,422
Investment and other income	17,981		17,981	4,091		4,091
Amortization of capital assets	(159,738)	(9,246)	(168,984)	(156,953)	(10,320)	(167,273)
Interest expense	(18,976)	(15,326)	(34,302)	(15,357)	(19,725)	(35,082)
Provision for income taxes	(4,738)	(600)	(5,338)	(3,377)	(600)	(3,977)
Net income (loss)	95,099	17,424	112,523	32,228	(4,047)	28,181
Assets	2,425,267	300,515	2,725,782	2,208,336	307,043	2,515,379
Liabilities	1,404,342	192,702	1,597,044	1,272,064	217,100	1,489,164
Acquisition of capital assets	95,274	6,450	101,724	77,591	4,128	81,719

16. Comparative figures

Comparative figures have been reclassified to conform with the current year's presentation.

CANADIAN BROADCASTING CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements and all other information presented in the annual report are the responsibility of management and have been reviewed and approved by the Board of Directors of the Corporation. These financial statements, which include amounts based on management's best estimates as determined through experience and judgement, have been properly prepared within reasonable limits of materiality and are in accordance with generally accepted accounting principles.

Management of the Corporation maintains books of account, records, financial and management control, and information systems, which are designed for the provision of reliable and accurate financial information on a timely basis. These controls provide reasonable assurance that assets are safeguarded, that resources are managed economically and efficiently in the attainment of corporate objectives, that operations are carried out effectively and that transactions are in accordance with the *Broadcasting Act* and the by-laws of the Corporation.

The Corporation's Internal Auditor has the responsibility for assessing the Corporation's systems, procedures and practices. The Auditor General of Canada conducts an independent audit of the annual financial statements and reports on his audit to the Canadian Broadcasting Corporation and the Minister of Canadian Heritage.

The Board of Directors' Audit Committee, which consists of four members, none of whom is an officer of the Corporation, reviews and advises the Board on the financial statements and the Auditor General's report thereto. The Audit Committee oversees the activities of Internal Audit and meets with management, the Internal Auditor and the Auditor General on a regular basis to discuss the financial reporting process as well as auditing, accounting and reporting issues.

Perrin Beatty
President and CEO

Louise Tremblay
Senior Vice-President, Resources

AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF THE
CANADIAN BROADCASTING CORPORATION
AND THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the Canadian Broadcasting Corporation as at March 31, 1997 and the statements of operations, proprietor's equity account and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Broadcasting Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part III of the *Broadcasting Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
June 16, 1997

CANADIAN BROADCASTING CORPORATION—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash and short-term investments	216,137	181,055
Accounts receivable	109,686	108,620
Program inventory	96,517	105,552
Prepaid expenses	21,361	33,666
Deferred income tax	20,523	18,858
	464,224	447,751
Capital assets (Note 7)	1,185,099	1,219,056
Deferred charges and other assets (Note 8)	15,416	29,869
	1,200,515	1,248,925
	1,664,739	1,696,676

LIABILITIES	1997	1996
Current		
Accounts payable and accrued liabilities	185,919	191,579
Accrued vacation pay	40,088	37,730
Employee termination benefits	112,104	153,293
Obligations under capital leases (Note 11)	15,827	14,193
	353,938	396,795
Long-term		
Employee termination benefits	65,824	66,684
Deferred pension liability (Note 10)	97,748	155,314
Obligations under capital leases (Note 11)	389,276	397,672
	552,848	619,670
PROPRIETOR'S EQUITY		
Proprietor's equity account	757,953	680,211
	1,664,739	1,696,676

The accompanying notes form an integral part of the financial statements.

LOUISE TREMBLAY
Senior Vice-President, Resources

Approved on behalf of the Board of Directors:

GUYLAINE SAUCIER
Director

MICHEL DOYON
Director

CANADIAN BROADCASTING CORPORATION—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Revenue		
Parliamentary appropriations (Note 3 (a))	854,449	963,229
Other revenue, net (Note 4)	283,516	295,142
	1,137,965	1,258,371
Expense		
Television and radio service costs	1,106,231	1,191,529
Transmission, distribution and collection	80,388	85,858
Payments to private stations	16,019	16,185
Corporate management	16,622	22,085
Total expense before downsizing expense and taxes	1,219,260	1,315,657
Net operating loss before downsizing expense and taxes	(81,295)	(57,286)
Downsizing program (Note 5)	(19,312)	205,501
Parliamentary appropriation for downsizing program (Note 3 (a))	(41,975)	(106,025)
Provision for income and large corporations taxes (Note 6)	2,959	3,041
Net operating loss for the year	(22,967)	(159,803)
Reconciliation to government funding basis		
Deduct: net items not requiring current operating funds (Note 3 (b))	63,921	153,018
Operating fund surplus (deficit) for the year	40,954	(6,785)
Operating fund (deficit) surplus, beginning of year	(6,429)	356
Operating fund surplus (deficit), end of year	34,525	(6,429)

The accompanying notes form an integral part of the financial statements.

STATEMENT OF PROPRIETOR'S EQUITY ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Balance, beginning of year	680,211	738,599
Add (deduct)		
Parliamentary appropriations (Note 3 (a))		
For capital fund	96,709	97,415
For working capital fund	4,000	4,000
Net operating loss for the year	(22,967)	(159,803)
Balance, end of year	757,953	680,211

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Operating activities		
Net operating loss for the year	(22,967)	(159,803)
Gain on disposal of capital assets	(202)	(2,611)
Items not involving cash		
Amortization of capital assets	117,303	137,411
Amortization of deferred charges and other assets	14,453	7,418
Employee termination benefits	(860)	(37,409)
Deferred pension contribution	(57,566)	85,382
Net change in working capital balances excluding cash and short-term investments (Note 15)	(24,208)	85,719
	25,953	116,107
Financing activities		
Parliamentary appropriations (Note 3 (a))		
For capital fund	96,709	97,415
For working capital fund	4,000	4,000
Proceeds on disposal of capital assets / financing from other organizations	2,690	4,560
	103,399	105,975
Investing activities		
Acquisition of capital assets	(85,874)	(81,438)
Capital portion of lease payments	(13,188)	(17,836)
Refinancing of capital lease	4,792	
Deferred charges		(394)
Other assets		33
	(94,270)	(99,635)
Increase in cash and short-term investments	35,082	122,447
Cash and short-term investments, beginning of year	181,055	58,608
Cash and short-term investments, end of year	216,137	181,055

The accompanying notes form an integral part of the financial statements.

CANADIAN BROADCASTING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997

1. Authority and objective

The Canadian Broadcasting Corporation was first established by the 1936 *Canadian Broadcasting Act* and continued by the 1958, 1968 and 1991 *Broadcasting Acts*. The Corporation is an agent of Her Majesty and all property acquired by the Corporation is the property of Her Majesty.

As the national public broadcaster, the Canadian Broadcasting Corporation provides radio and television services in both official languages incorporating predominantly and distinctively Canadian programs to reflect Canada and its regions to national and regional audiences.

2. Significant accounting policies

(a) Basis of presentation

The financial statements include the accounts of the Corporation and its proportionate share of the assets, liabilities, revenues and expenses relating to joint venture activities.

(b) Parliamentary appropriations

The Corporation is mainly financed by the Government of Canada. Parliamentary appropriations are provided for operating expenditures and downsizing expenses and are recorded as income. Parliamentary appropriations for capital and working capital funds are credited to Proprietor's Equity Account.

(c) Program inventory

Program inventory consists of:

(i) Programs completed and in process of production, or available for sale

Programs completed and in process of production, or available for sale are stated at cost. Cost includes the cost of materials and services, and the share of labour and overhead expenses applicable to programs.

Program costs are charged to operations as the programs are broadcast or deemed unusable, or are sold.

(ii) Film and script rights

The Corporation enters into contracts for script and film broadcasting rights. As payments are made under the terms of each contract they are reflected in the accounts as prepaid film rights. The film rights are charged to operations on an accelerated basis as the programs are broadcast or when deemed unusable.

(d) Short-term investments

Short-term investments which include bank deposits, notes and treasury bills are valued at cost which approximates fair market value.

(e) Capital assets

Capital assets are recorded at cost. The cost of assets constructed by the Corporation includes material, engineering services, direct labour and related overhead. Assets recorded as capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Amortization is calculated on the straight-line method using rates based on the estimated useful life of the assets as follows:

—Buildings	33 years
—Technical equipment	
Transmitters and towers	20 years
Other	10 years
—Furnishings and office equipment	10 years
—Computers	5 years
—Automotive	5 years

Leasehold improvements are capitalized and amortized over the remaining term of the respective leases to a maximum period of five years. Amounts included in uncompleted capital projects are transferred to the appropriate capital asset classification upon completion, and are then amortized according to the Corporation's policy.

(f) Deferred charges and other assets

Deferred costs incurred in the development of specialty channels and goodwill arising from the acquisition of broadcast undertakings are amortized over seven years based on a normal license period. Deferred costs incurred by joint ventures are amortized over a period of five years. Other costs are amortized over the period of the respective agreements.

(g) Pension cost and obligation

The Corporation provides pensions based on length of service and final average earnings as classified under defined benefit retirement pension arrangements.

The cost of pension benefits earned by employees is determined using the projected benefit method of actuarial valuation with projected salary increases where appropriate, pro-rated on services and charged to operations as services are rendered. This cost reflects management's best estimate of the pension fund's expected investment yields, and of salary escalations, mortality of members, terminations and ages at which members will retire. The surplus on the introduction of this accounting policy, adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of the employee group.

The difference between the accumulated pension expense and the employer's contributions to the Pension Fund is reflected in the balance sheet as a long-term deferred charge or deferred pension liability as the case may be.

(h) Other post-employment benefits

In addition to pension benefits, the Corporation provides life insurance benefits to its retired employees. The costs related to this benefit are expensed as incurred by the Corporation during the post-retirement period.

CANADIAN BROADCASTING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997—*Continued*

(i) Employee termination benefits and vacation pay

Employee termination benefits and vacation pay are expensed as the benefits accrue to employees under their respective terms of employment.

Termination benefits are calculated on an actuarial basis taking into account the future expected payments, the probabilities of payment and discount to the valuation date. The present value of the projected cost is recorded as a liability.

Vacation pay is valued at cost calculated at salary levels in effect at the end of the year for all unused vacation pay benefits accruing to employees.

(j) Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Employee termination benefits and deferred pension liability are the most significant items where estimates are used. Actual results could differ from those estimates.

3. Parliamentary appropriations

(a) Parliamentary appropriations approved and the payments received by the Corporation during the year are as follows:

	1997	1996
	(in thousands of dollars)	
Appropriations for:		
Operating Fund		
—Annual Operating Fund	818,329	918,229
—Transfer from Capital Fund	36,120	45,000
	854,449	963,229
Funding for downsizing program	41,975	106,025[1]
Capital Fund	140,829	142,415
—Less: transfer to Operating Fund	36,120	45,000
—Less: transfer to 97-98 fiscal year	8,000	
	96,709	97,415
Working capital fund	4,000	4,000

[1] Of this amount, a total of $50 million was received in the form of repayable advance which will be recovered from future appropriations, with interest, starting in 1998-99 on an annual basis until 2009-10.

(b) The Corporation receives a significant portion of its funding through parliamentary appropriation and therefore manages its operations on a government funding basis. The actual expenditures requiring current operating funds are the essential measure of the Corporation's financial operating requirements for the year.

The following summarizes the reconciling items not requiring or generating current operating funds:

	1997	1996
	(in thousands of dollars)	
Income items related to capital assets	(202)	(2,611)
Other income items included in the net revenue figure		
Amortization, employee termination benefits and vacation pay, deferred pension contribution, and other items	4,704	8,927
	4,502	6,316
Expense related to operating activities		
Amortization of capital assets	117,303	137,411
Goodwill and other	7,979	5,108
Interest expense on capital lease		(1,384)
Employee termination benefits and vacation pay	4,483	3,596
Program inventory costs	(3,462)	1,900
Deferred pension contribution	(19,263)	(9,527)
	107,040	137,104
Less: income items	(4,704)	(8,927)
Sub-total	102,336	128,177
Downsizing—Employee termination benefits and vacation pay	(2,985)	(57,547)
Downsizing—Pension plan curtailment	(38,303)	94,909
Income taxes	(1,629)	(18,837)
Net items not requiring current operating funds	63,921	153,018

CANADIAN BROADCASTING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997—*Continued*

4. Other revenue, net

This consists of the following items:

	March 31, 1997			March 31, 1996		
	Revenue	Expense	Net	Revenue	Expense	Net
	(in thousands of dollars)					
Advertising	293,664	43,142	250,522	305,508	44,041	261,467
Special programming events	58,446	55,530	2,916			
Specialty services						
CBC Newsworld	54,677	54,817	(140)	51,173	51,814	(641)
RDI	30,598	30,603	(5)	27,500	27,908	(408)
Program sales	12,724	11,833	891	13,598	12,043	1,555
RCI	6,419	16,924	(10,505)	10,080	16,448	(6,368)
Miscellaneous	52,498	12,661	39,837	56,321	16,784	39,537
	509,026	225,510	283,516	464,180	169,038	295,142

Advertising

Revenues from the sale of advertising time are reflected here, net of the selling and marketing expenses required to generate the revenues.

Special programming events

Special programming events are defined as events for which the revenues or expenses are individually significant and are not part of the regular annual programming schedule. For 1996-97, special programming events include the Olympic Games and the World Cup of Hockey.

Specialty services—CBC Newsworld and RDI

The Corporation operates CBC Newsworld and RDI under license conditions that the operations be reported on an incremental cost and revenue basis. In compliance with the license conditions, the Corporation will report the above results for 1997, and has reported the results for 1996, to the Canadian Radio-Television and Telecommunications Commission.

As at March 31, 1997, the cumulative net operating surplus carried forward to Fund CBC Newsworld's future years' activities totalled $0.5 million (1996—$0.6 million) and for RDI, a surplus of seven thousand dollars (1996—twelve thousand dollars). These activities are an integral part of the operations of the Corporation.

Program sales

Revenue generated through the sale of programming to outside broadcasters and the related marketing expenses are included here.

Radio Canada International (RCI)

For 1995-96 and 1996-97, the Corporation agreed to subsidize the operations of RCI. Revenue represents funding received from various government departments and agencies.

Miscellaneous

Revenues from the rental and sale of facilities and services, lease of transmitter sites, interest receipts, and joint venture activities are reflected here, partly offset by any incremental expenses related to the revenues.

CANADIAN BROADCASTING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997—*Continued*

5. Downsizing program

The Corporation continued its cost reduction efforts to address the impact of the budget cuts announced by the Government of Canada.

The downsizing program resulted in the departure of employees through incentive programs and lay-offs.

Management's best estimate of the costs associated with the three year downsizing program is as follows:

	1997	1996	1995	Total
	(in thousands of dollars)			
Employee termination and special benefits	11,283	99,350	33,274	143,907
Pension expense [1]	(38,303)	94,909	4,000	60,606
Transfer and removal, outplacements, and other	7,708	11,242		18,950
	(19,312)	205,501	37,274	223,463
Reconciliation to government funding basis				
Unfunded expenses recorded annually as part of normal operations, in previous years [2]	2,985	57,547	23,051	83,583
Pension expense [1]	38,303	(94,909)	(4,000)	(60,606)
Expenses on a government funding basis	21,976	168,139	56,325	246,440

Other downsizing costs, which could not be reasonably estimated, will be recorded as incurred.

The Corporation has requested further assistance from the Government of Canada to fund the cost of the downsizing program.

[1] The pension costs of the downsizing program (1996—$94.9 million) were adjusted downward by $38.3 million to reflect management's revised cost estimates for terminations and retirements.

[2] Employee termination benefits and vacation pay expensed annually as benefits accrued to employees under their respective terms of employment.

6. Income and large corporations taxes

The Corporation is a prescribed federal Crown corporation under Part LXXI of the Income Tax Regulations and is subject to the provisions of the *Income Tax Act* (Canada). The Corporation is not subject to provincial income taxes on its own activities.

The Corporation's net provision for tax of $2.9 million (1996—$3.0 million) is the difference between the provision for income and large corporations taxes of $4.6 million (1996—$21.9 million) and deferred income tax of $1.7 million (1996—$18.9 million).

The Corporation has net timing differences resulting from items reported for tax purposes in different periods than for accounting purposes of $58.1 million (1996—$161.4 million), the benefit of which has not been recognized in the financial statements. These timing differences generally result from the accrual of pension and severance pay costs, and capital cost allowance on its long-term capital lease where funding for the lease obligation is provided over several years. Capital cost allowance is not claimed on other capital assets, as the related capital funding is usually received in full in the same year in which the asset is acquired.

7. Capital assets

	Cost	Accumulated amortization	1997 Net book value	1996 Net book value
	(in thousands of dollars)			
Land	35,560		35,560	35,941
Buildings	348,838	182,363	166,475	168,416
Technical equipment	1,091,251	644,875	446,376	462,248
Furnishings, office equipment and computers	76,754	47,061	29,693	32,806
Automotive	28,710	19,765	8,945	11,079
Leasehold improvements	7,221	4,827	2,394	2,124
Property under capital leases	511,575	61,329	450,246	465,015
Uncompleted capital projects	45,410		45,410	41,427
	2,145,319	960,220	1,185,099	1,219,056

8. Deferred charges and other assets

	Cost	Accumulated amortization	1997 Net book value	1996 Net book value
	(in thousands of dollars)			
Deferred charges				
CBC Newsworld				297
Réseau de l'information	5,243	1,459	3,784	4,671
Joint venture activities	2,839	1,135	1,704	2,219
Other agreements	18,509	8,583	9,926	14,218
Goodwill	9,799	9,799		7,582
Investments	882	880	2	882
	37,272	21,856	15,416	29,869

9. Business venture activities

The Corporation has net equity of $5.4 million (1996—$6.1 million) in joint business ventures which are accounted for using the proportionate consolidation method.

CANADIAN BROADCASTING CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997—*Concluded*

10. Deferred pension liability

Projections from an actuarial valuation prepared for accounting purposes show an estimated present value of accrued pension benefits of $2,556.8 million as at March 31, 1997 (1996—$2,500.4 million) which includes $11.4 million (1996—$9.0 million) of unfunded retirement benefits. The actuarial value of the pension fund assets as at March 31, 1997 was $2,767.6 million (1996—$2,562.4 million).

The deferred pension liability as at March 31, 1997 amounting to $97.7 million (1996—$155.3 million) is the difference between the accumulated pension expense and the employer's contributions to the pension fund.

11. Obligations under capital leases

(a) Broadcasting Centre, Toronto

Payments under the Broadcast Centre Building Lease are tied to the landlord's cost of financing. In 1996-97, the landlord, Broadcast Centre Trust, refinanced the building on a long-term basis, leading to an amendment of the CBC's lease payment schedule.

The lease payments, under the terms of the amended payment schedule, are now fixed at $33,038,796 per annum until April 2027.

Future minimum lease payments and the obligation under the Broadcasting Centre Lease are as follows:

	(in thousands of dollars)
1998	33,039
1999	33,039
2000	33,039
2001	33,039
2002	33,039
Thereafter	842,488
Total minimum future payments	1,007,683
Deduct: imputed interest (7.53%)	602,745
Obligation under capital lease	404,938

CBC owns the land on which the Toronto Broadcast Centre is located.

(b) Other

As at March 31, 1997, the Corporation's obligation related to a capital lease, other than the Broadcasting Centre in Toronto, amounted to $165,000.

12. Commitments

(a) Program related and other

As at March 31, 1997, commitments for sports rights amounted to $120.1 million; procured programs, film rights and co-productions amounted to $29.3 million and capital assets amounted to $9.6 million for total commitments of $159 million.

(b) Operating leases

Future annual payments related to operating leases are as follows:

	(in thousands of dollars)
1998	60,778
1999	46,588
2000	31,834
2001	3,714
2002	1,753
2003-2062	3,877
Total future payments	148,544

(c) Joint venture activities

The Corporation's proportionate share of commitments related to joint venture activities totalled $6.8 million (1996—$5.7 million).

13. Contingencies

Various claims and legal proceedings have been asserted or instituted against the Corporation, including some which demand large monetary damages or other relief which could result in significant expenditures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable. A provision for these expenditures has been recorded based on management's best estimate. It is reasonably possible that the Corporation may have to settle some of these claims for amounts in excess of established reserves in the near term. Any such costs will be charged to operations as incurred.

14. Related party transactions

The Corporation is related in terms of common ownership and enters into transactions with other Government departments, agencies and Crown corporations in the normal course of business on normal trade terms applicable to all individuals and enterprises. Transactions with the Government of Canada are outlined in Notes 3 and 4.

15. Net change in non-cash working capital balances

	1997	1996
	(in thousands of dollars)	
Cash provided by (used for):		
Accounts receivable	(1,066)	(5,228)
Program inventory	9,035	(884)
Prepaid expenses	12,305	(3,789)
Deferred income taxes	(1,665)	(18,858)
Accounts payable and accrued liabilities	(5,660)	15,183
Short-term portion of capital leases	40	2
Obligations under capital leases	1,634	(1,384)
Accrued vacation pay	2,358	(16,542)
Employee termination benefits	(41,189)	117,219
	(24,208)	85,719

16. Comparative figures

Certain of the 1996 comparative figures have been reclassified to conform to the current year's presentation.

CANADIAN COMMERCIAL CORPORATION

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of the Canadian Commercial Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements, where appropriate. Financial information presented elsewhere in the annual report is consistent with the statements.

In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices which are designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices are intended to ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and adherence to corporate policies and statutory requirements.

The Audit Committee oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Corporation's external auditors and those conducting its internal audits have full and free access to the Audit Committee to discuss the results of their work and to express their concerns and opinions.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation, and for issuing his report thereon.

Robert G. Wright
President

F. O. Kelly
Director, Corporate Services

AUDITOR'S REPORT

TO THE MINISTER FOR INTERNATIONAL TRADE

I have audited the balance sheet of the Canadian Commercial Corporation as at March 31, 1997 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Commercial Corporation Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 5, 1997

CANADIAN COMMERCIAL CORPORATION—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Cash and short-term deposits (Note 3)	55,050	55,863
Accounts receivable (Note 4)	122,655	122,806
Advances to suppliers	35,382	70,549
Progress payments to suppliers	37,404	63,564
	250,491	312,782

LIABILITIES	1997	1996
Accounts payable and accrued liabilities (Note 4)	135,640	124,977
Advances from customers	59,236	105,331
Progress payments from customers	36,715	63,589
Provision for additional contract costs (Note 5)	594	1,294
	232,185	295,191
Employee termination benefits	1,054	967
	233,239	296,158
Contingencies (Note 7)		
EQUITY OF CANADA		
Contributed capital	10,000	10,000
Retained earnings	7,252	6,624
	17,252	16,624
	250,491	312,782

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

ROBERT G. WRIGHT
President

ANDRÉ TRÉPANIER
Director

CANADIAN COMMERCIAL CORPORATION—*Continued*

STATEMENT OF OPERATIONS
AND RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Revenues		
Contract billings (Note 8)	904,637	973,252
Interest and other revenue	2,907	1,330
	907,544	974,582
Expenses		
Cost of contract billings (Note 8)	904,637	973,252
Additional contract costs	254	1,075
Administrative expenses	12,966	13,730
	917,857	988,057
Net results of operations before parliamentary appropriation	(10,313)	(13,475)
Parliamentary appropriation	10,941	11,823
Net results of operations after parliamentary appropriation	628	(1,652)
Retained earnings at beginning of year	6,624	8,276
Retained earnings at end of year	7,252	6,624

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Financing activities		
Parliamentary appropriation	10,941	11,823
Operating activities		
Receipts from customers	831,262	978,027
Interest and other income received	2,907	1,330
Payments to suppliers	(832,475)	(1,003,573)
Administrative payments	(13,448)	(13,155)
Cash used in operating activities (Note 12)	(11,754)	(37,371)
Decrease in cash and short-term deposits	(813)	(25,548)
Cash and short-term deposits at beginning of year	55,863	81,411
Cash and short-term deposits at end of year	55,050	55,863

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997

1. Nature, organization and funding

The Corporation was established in 1946 by the *Canadian Commercial Corporation Act* and is an agent Crown corporation listed in Part I of Schedule III to the *Financial Administration Act*.

The Corporation acts as the prime contracting agency when other countries and international organizations wish to purchase products and services from Canada. Contracts are made with foreign governments, international organizations and other buyers. Corresponding supply contracts are entered into with Canadian firms by the Corporation.

The Government has provided the Corporation with $10 million as contributed capital. The Corporation also has authority to draw loans from the Consolidated Revenue Fund in amounts up to a total of $10 million as required to supplement its working capital. Annually, the Corporation seeks funding for its operations through parliamentary appropriation.

The Corporation is not subject to the provisions of the *Income Tax Act*.

CANADIAN COMMERCIAL CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

2. Significant accounting policies

These financial statements are prepared in accordance with generally accepted accounting principles. A summary of significant policies follows:

(a) Contracts

The Corporation uses the percentage-of-completion method when accounting for contracts involving progress payments. The cost of contract billings and related revenues are recognized on receipt of progress billings from suppliers. Since title has not yet passed to customers, the Corporation recognizes the progress payments made to suppliers as an asset and the progress payments received from customers as a liability. The related progress payments are reduced when deliveries are accepted by the customer.

Progress payments from customers and to suppliers, represent payments made by foreign buyers and to Canadian exporters on contracts where the partial recoupment of costs (usually 80%), associated with the work performed on a contract leading up to delivery, is allowed. These payments are not loans. Given that the payment flows through to the Canadian exporter, the liabilities are essentially offset on the asset side of the balance sheet.

Advances from customers and to suppliers, represent a downpayment made at the outset of the contract, before any work has been performed, as agreed upon by the foreign buyer. These payments are not loans.

Additional contract costs incurred primarily as a result of suppliers failing to fulfil their obligations to the Corporation are determined on a contract-by-contract basis. These costs are recorded in the statement of operations in the year in which the non-performance is identified and the additional costs to be incurred by the Corporation are reasonably determinable.

(b) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenues and expenses are translated at the average exchange rates for the month in which the transactions occur. Exchange gains and losses arising from translation of foreign currencies are included in other income.

Contracts with foreign customers and corresponding contracts with Canadian suppliers are generally entered into in the same currency. The Corporation uses this and other techniques in order to effectively transfer currency and credit risk to the supplier.

The Corporation maintains some working capital in other currencies to facilitate the cash flow between foreign customers and Canadian suppliers.

(c) Pension plan

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employee's contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Public Service Superannuation Account.

(d) Employee termination benefits

Employees of the Corporation are entitled to specified termination benefits, calculated at salary levels in effect at the time of termination, as provided for under collective agreements and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to employees.

The liability for employee termination benefits is estimated by management based on current entitlements.

3. Cash and short-term deposits

As at March 31, 1997, cash and short-term deposits include:

	Years ended March 31	
	1997	1996
	(in thousands of dollars)	
Unencumbered balances		
US dollars	24,225	12,343
Pounds sterling	535	1,720
Canadian dollars	3,283	6,188
	28,043	20,251
Held in trust		
US dollars	2,867	
Australian dollars	5,229	6,589
Deutschmark	8,844	17,456
Canadian dollars	10,067	11,567
	27,007	35,612
Total		
US dollars	27,092	12,343
Other foreign currencies	14,608	25,765
Canadian dollars	13,350	17,755
	55,050	55,863

Interest earned on cash and short-term deposits held in trust is credited to the customer. The Corporation invests in short-term deposits in Canadian Schedule A banks. Average term to maturity is less than 21 days. The overall portfolio yield at March 31, 1997 was 4.9%.

At the beginning of the year, the Corporation held notes receivable with a net book value of $2,496,000. During the year, the Corporation received a settlement in excess of the notes' book value.

CANADIAN COMMERCIAL CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

4. Accounts receivable and accounts payable

Accounts receivable are due on normal trade terms and are non-interest bearing.

Accounts payable are due on normal trade terms, except those due to small and medium-sized enterprises which are paid within 15 days. In neither case is interest charged.

As at March 31, 1997 the Corporation has accounts receivable from foreign governments of $122,212,000 (1996—$121,806,000), net of a provision of $1,048,000 (1996—$1,616,000) to cover the possible non-collection of certain accounts.

5. Provision for additional contract costs

The Corporation may incur additional contract costs should suppliers not fulfil the terms of their contracts. The Corporation has recorded a provision of $594,000 as of March 31, 1997 (1996—$1,294,000), representing management's best estimate of the additional costs which will be incurred by the Corporation to meet its contractual obligations. It is management's view, based on existing knowledge, that changes in future conditions in the near term should not require a material change in this provision.

6. Contractual obligations

The Corporation is obligated to fulfil numerous contracts with foreign customers. The total contract value remaining to be fulfilled approximates $1.3 billion as at March 31, 1997 (1996—$1.6 billion).

Under the Progress Payment Program the Corporation also indemnifies participating banks for amounts they have advanced to the Corporation's suppliers. The Corporation has a claim through the bank to offset these indemnities. The amount of outstanding indemnities as of March 31, 1997 is $6,400,000 (1996—$2,000,000).

7. Contingencies

The Corporation was served with a statement of claim wherein the plaintiff, a supplier, seeks substantial damages arising out of alleged losses from contracts completed in 1993. Based on advice from legal counsel, the potential liability of the Corporation and the consequent damages arising from any such liability are, at present, not determinable. Amounts, if any, payable by the Corporation will be recorded in the year in which they can be determined.

8. Segmented information

The Corporation facilitates the sale of Canadian goods to foreign governments, international agencies and other buyers throughout the world. Contract billings were distributed as follows:

	Years ended March 31	
	1997	1996
	(in thousands of dollars)	
US Government and buyers	581,134	578,809
Other Foreign Governments and buyers	315,957	364,443
United Nations Agencies	7,546	30,000
	904,637	973,252

9. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada-created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements:

(a) Public Works and Government Services Canada

Public Works and Government Services Canada provides contract management services to the Corporation at predetermined negotiated rates based on the amounts of contracts procured, and provides certain functions at cost. For the year ended March 31, 1997 the cost of these services amounted to $3,108,000 (1996—$4,186,000) and are included in the administrative expenses.

(b) Department of Justice

The Department of Justice represents the Corporation in certain matters. The Corporation pays for legal fees and expenses incurred in connection with specific actions. For the year ended March 31, 1997 the cost of legal fees and expenses for specific actions amounted to $484,000 (1996—$701,000), and are included in the administrative expenses.

As a result of all related party transactions, the amounts due from and to these parties are $165,000 (1996—$528,000) and $273,000 (1996—$1,399,000) and are included in the accounts receivable and accounts payable respectively.

In addition, government departments provided the Corporation with certain administrative services without charge. The value of these services is not recorded in the Corporation's accounts.

10. Insurance

While the Corporation follows the practice of self-insuring, specific insurance is carried relating to fraud, computer hardware and software, office furniture and fixtures, and travel accident and medical.

11. Lease commitments

In March 1995, the Corporation entered into a ten-year lease agreement for office space effective October 1, 1995. The annual payments for the duration of the lease will approximate $775,000.

CANADIAN COMMERCIAL CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

12. Reconciliation of net results to cash used in operating activities

	Years ended March 31	
	1997	1996
	(in thousands of dollars)	
Net results of operations before parliamentary appropriation	(10,313)	(13,475)
Adjustments to reconcile net results to net cash used in operating activities:		
Decrease in accounts receivable	151	31,318
Decrease in advances to suppliers	35,167	23,398
Decrease (increase) in progress payments to suppliers	26,160	(8,748)
Increase (decrease) in accounts payable and accrued liabilities	10,663	(43,943)
(Decrease) in advances from customers	(46,095)	(35,643)
(Decrease) increase in progress payments from customers	(26,874)	8,663
(Decrease) increase in provision for additional contract costs	(700)	1,038
Increase in employee termination benefits	87	21
Total adjustments	(1,441)	(23,896)
Cash used in operating activities	(11,754)	(37,371)

13. Comparative figures

Certain 1995-96 figures have been reclassified to conform with the current year presentation.

CANADIAN DAIRY COMMISSION

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 31, 1997
WERE NOT AVAILABLE AT DATE OF PRINTING

CANADIAN DAIRY COMMISSION—*Continued*

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of the Canadian Dairy Commission and all information in this annual report are the responsibility of management. The statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements where appropriate. Financial information presented elsewhere in the annual report is consistent with the statements provided.

In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and the adherence to Commission policies and statutory requirements. The process includes management's annual communication to employees of Treasury Board's guidelines on conflict of interest and code of conduct.

The Audit Committee of the Canadian Dairy Commission, made up of the Commissioners, oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Commission's internal and external auditors have free access to the Audit Committee to discuss the results of their work and to express their concerns and opinions.

The transactions and financial statements of the Commission have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

Gilles Prégent
Chairman

Paul Simard
Director of Finance

AUDITOR'S REPORT

TO THE MINISTER OF AGRICULTURE AND AGRI-FOOD

I have audited the balance sheet of the Canadian Dairy Commission as at July 31, 1996 and the statement of operations and funding by producers and the statement of dairy support program operations and costs funded by the Government of Canada for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at July 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Dairy Commission Act* and the by-laws of the Commission.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
September 27, 1996

CANADIAN DAIRY COMMISSION—*Continued*

BALANCE SHEET AS AT JULY 31, 1996
(in thousands of dollars)

ASSETS	1996	1995
Accounts receivable		
Trade	14,038	259
Government of Canada (Dairy Support Program)	18,645	27,180
Producer levies	7,502	67,743
Inventories (Note 3)	105,821	94,150
	146,006	189,332
Pooling account (Note 4)		
Cash	1,427	
Due from provincial marketing boards and agencies	11,140	
	12,567	
	158,573	189,332

LIABILITIES	1996	1995
Accounts payable and accrued liabilities	33,734	49,464
Subsidies payable to producers	18,638	27,067
Allowance for losses on outstanding purchase commitments		1,856
Loans from Government of Canada (Note 5)	75,266	69,334
	127,638	147,721
Pooling account		
Due to provincial marketing boards and agencies	12,440	
Accrued liabilities	127	
	12,567	
EXCESS OF FUNDING BY PRODUCER (NOTE 6)		
Excess at end of period	18,368	41,611
	158,573	189,332

The accompanying notes and schedule are an integral part of these financial statements.

Approved:

GILLES PRÉGENT
Chairman

LOUIS BALCAEN
Vice-Chairman

PAUL SIMARD
Director of Finance

CANADIAN DAIRY COMMISSION—*Continued*

STATEMENT OF OPERATIONS AND FUNDING BY PRODUCERS FOR THE YEAR ENDED JULY 31, 1996
(in thousands of dollars)

	1996	1995
Export sales	212,160	138,605
Cost of goods sold	243,296	195,789
Loss on export sales	31,136	57,184
Domestic sales	90,945	76,233
Cost of goods sold	92,057	76,100
Loss (margin) on domestic sales	1,112	(133)
Total loss on sales	32,248	57,051
Assistance and expenses	22,262	104,554
Total cost of operations	54,510	161,605
Less portion of administrative expenses funded by the Government of Canada	2,339	2,493
Net cost of operations funded by producer	52,171	159,112
Funding by producers (Note 7)	64,550	192,374
Excess of funding of net cost of operations	12,379	33,262
Excess at beginning of year	41,611	20,149
	53,990	53,411
Refunds of previous years' excess	35,622	11,800
Excess at end of year	18,368	41,611

The accompanying notes and schedule are an integral part of these financial statements.

STATEMENT OF DAIRY SUPPORT PROGRAM OPERATIONS AND COSTS FUNDED BY THE GOVERNMENT OF CANADA FOR THE YEAR ENDED JULY 31, 1996
(in thousands of dollars)

	1996	1995
Subsides to producers of industrial milk and cream	184,958	221,821
Administrative expenses	2,339	2,493
Costs of production and dairy policy studies	347	361
Total costs funded by the Government of Canada	187,644	224,675

The accompanying notes and schedule are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JULY 31, 1996

1. The Commission

The Canadian Dairy Commission (the "Commission"), is an agent Crown corporation named in Part I, Schedule III to the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. The objects of the Commission, as established by the *Canadian Dairy Commission Act (CDC Act)*, are "to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality".

The Commission administers the dairy support program funded by the Government of Canada, under which it makes subsidy payments to producers. In cooperation with the Canadian Milk Supply Management Committee (CMSMC), which it chairs, the Commission undertakes the management and administration of operations funded by producers partly through levies. The results of the Commission's operations in each of these areas are presented in the Statement of Dairy Support Program Operations and Costs Funded by the Government of Canada, and in the Statement of Operations and Funding by Producers, respectively, in order to distinguish the accountability relationships for them.

The Commission purchases all butter and skim milk powder tendered to it at either the Canadian support price or at the international market price, depending on the intended resale markets. While a major portion of the butter purchased by the Commission is later resold in the domestic market, most of the skim milk powder is in excess of domestic needs and is exported. The Commission sells production surplus to domestic requirements in the form of whole milk products, skim milk powder and butter on international markets. Historically, prices on international markets have usually been lower than Canadian support prices.

The Commission implemented a number of changes to its programs and policies at the beginning of the 1995-96 dairy year. These changes, developed in conjunction with the dairy industry, were necessary as a result of Canada's commitments under the North America Free Trade Agreement and the World Trade Organization Agreement. Amendments to the *CDC Act* to accommodate these changes received Royal Assent in July 1995.

Effective August 1, 1995 the Commission administers a new special milk class pricing and pooling of market returns system which provides milk components to further processors and exporters through processors at competitive prices. These prices are established at levels according to a mechanism agreed to by the CMSMC. This arrangement has eliminated the need for the Commission to make assistance payments to processors and exporters of dairy products. Also, the Commission purchases most of the dairy products destined for export at world prices, thereby significantly reducing the requirement for producer levies. Effective August 1, 1996, producer levies will no longer be collected to finance marketing and administrative costs.

CANADIAN DAIRY COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
JULY 31, 1996—*Continued*

2. Significant accounting policies

Inventories

Inventories are valued at the lower of cost or estimated net realizable value.

Allowance for losses on outstanding purchase commitments

The Commission establishes an allowance for losses on outstanding purchase commitments based on current contracts for export sales.

Refunds of excess (recoveries of deficiency) of funding by producers

Refunds or recoveries are recorded in the year declared by the CMSMC.

Foreign currency translation

Substantially all sales in foreign currencies are hedged by forward exchange contracts and are translated into Canadian dollars at the exchange rates provided therein. Sales in foreign currencies that are not hedged are translated into Canadian dollars at the exchange rate in effect on the transaction date.

Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Commission's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are expensed during the year in which services are rendered and represent the total pension obligations of the Commission.

3. Inventories

	1996	1995
	(in thousands of dollars)	
Cost		
Butter	68,022	82,027
Skim milk powder	34,639	28,937
Other dairy products	7,003	110
	109,664	111,074
Less allowance for writedown		
Butter (mainly unsalted)	2,393	10,049
Skim milk powder	1,450	6,851
Other dairy products		24
	3,843	16,924
Net book value	105,821	94,150

4. Pooling account

As of August 1, 1995, with the introduction of the special milk class pricing and pooling of market returns system, the Commission established a bank account and line of credit with a member of the Canadian Payments Association in order to provide bridge financing and ensure the efficient operation of the pooling of market returns system established among the provinces. As producer monies enter and leave the pool as equalization payments from and to provincial marketing boards and agencies, the line of credit ensures that payments can be made promptly. During the year, certain provincial marketing boards and agencies have contributed approximately $38 million into the pool. These contributions have been used to make equalization payments to the other provincial marketing boards and agencies.

5. Loans from Government of Canada

Loans from the Government of Canada, to a maximum of $300 million, are available to finance operations. Individual loans are repayable within one year from the date the loan is made. Principal and accrued interest are repaid when funds are available. The interest rates during the year were in accordance with normal rates established for Crown corporations by the government and varied from 7.5225% to 4.5842% (1995—5.1644% to 8.4794%).

Loan transactions for the year are summarized as follows:

	1996	1995
	(in thousands of dollars)	
Balance at beginning of year	69,334	68,099
Borrowings	307,399	274,033
Payments	(301,467)	(272,798)
Balance at end of year	75,266	69,334
Accrued interest at end of year	434	536

6. Excess of funding by producers

Any excess or deficiency in the funding by producers of the net cost of operations may be carried forward and applied against future operations or recovered from or refunded to producers as determined by the CMSMC.

The CMSMC, at its meeting of November 30 and December 1, 1995, decided that an amount of $5.4 million, in addition to the amount of $29.9 million approved in September 1995, of the excess in funding by producer levies at the end of the 1994-95 dairy year be refunded to provincial marketing boards and agencies in proportion to their shares of levy revenues. As well, at its meeting of September 25 and 26, 1996, the CMSMC decided that $18.1 million of the excess of funding by producer levies at the end of the year will be refunded.

7. Funding

Government of Canada (Dairy Support Program)

Agriculture and Agri-Food Canada provides funding to the Commission for subsidy payments to producers of industrial milk and cream shipments, produced to meet domestic requirements. Such payments are made up to maximum amounts authorized by the regulations. The rate of subsidy payments was $1.283 per kilogram of butterfat or $4.62 per hectolitre of milk containing 3.6 kilograms of butterfat (1995—$1.508 or $5.43 respectively).

As part of the federal Budget of February 1995, the rate of subsidy payments will be reduced by another 15% for the dairy year 1996-97. In addition, subsidy payments will be gradually phased out with five annual rate cuts of $0.76 per hectolitre starting August 1, 1997. As of August 1, 1996, the rate will be $1.055 per kilogram of butterfat or $3.80 per hectolitre.

The Government of Canada has funded $2.3 million (1995—$2.5 million) of the Commission's administrative expenses of $5.0 million (1995—$5.2 million), as well as professional services relating to cost of production and dairy policy studies.

CANADIAN DAIRY COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
JULY 31, 1996—*Concluded*

Funding by producers

Producers are responsible for the costs of operations not funded by the Government of Canada. These costs were partially funded through levies agreed to by the CMSMC, charged on fluid milk sales and industrial milk production, collected by the provincial marketing boards and agencies, and remitted to the Commission.

As of August 1, 1995, the use of in-quota levies for funding export and domestic activities of the Commission was limited to an amount of $62.8 million, being the amount approved in the Commission's 1995-96 dairy year budget. The remainder of the Commission's export activities were funded through the special milk class pricing and pooling of market returns activities whereby purchases are based on world prices rather than domestic support prices.

Funding by producers is comprised of:

	1996	1995
	(in thousands of dollars)	
In-quota levies	62,883	164,137
Administrative expenses recovered from pooling activities	1,667	
Over-quota levies		28,237
Total	64,550	192,374

The pooling account is charged for the producers' share of the Commission's administrative expenses associated with marketing activities as well as the interest and banking expenses for maintaining the pooling account. Total charges to the pooling account for the year were $1.7 million.

Producer levies also include $0.12 (1995—$0.12) per hectolitre of industrial milk to cover the eligible costs associated with actual butter inventories up to normal levels determined by the Commission and a portion of its administrative expenses.

Amounts funded through this portion of levies and expenses allocated to it are as follows:

	Eligible costs associated with butter inventory up to normal levels and a portion of administrative expenses	
	1996	1995
	(in thousands of dollars)	
Opening balance	1,730	1,183
Funding	5,180	5,035
Expenses allocated	(4,691)	(4,488)
Closing balance	2,219	1,730

The closing balances are included in the excess of funding by producers at year end. The $2.2 million balance will be applied against the future expenses allocated to this portion of levies.

At its meeting of September 25 and 26, 1996, the CMSMC approved the 1996-97 dairy year budget which will eliminate all levies. Effective August 1, 1996, all of the Commission's marketing operations will be funded through the pooling account including the collection of the $0.12 per hectolitre of industrial milk charged to the marketplace.

8. Forward exchange contracts

As part of its foreign exchange risk management, the Commission enters into forward exchange contracts with regard to a major portion of its export sales contracts. At the end of the year the Commission's outstanding forward exchange contracts totalled the equivalent of approximately $100 million Canadian representing amounts in US dollars, Deutschemarks and French Francs. These contracts mature from August 1996 to May 1997. The maturity dates of the forward exchange contracts correspond to the estimated dates when the Commission should be receiving the foreign currency proceeds arising from the execution of the concerned export sales contracts.

9. Representatives' fees

The Commission has used the services of representatives for the sale of dairy products on the export market. Total fees for the year were $4.4 million (1995—$3.2 million) and are included in cost of goods sold.

10. Purchase commitments

As at July 31, 1996, the Commission was committed to purchase butter and skim milk powder produced prior to that date at Canadian support prices and other dairy products produced prior to that date at negotiated contract prices. These commitments amounted to approximately $7.2 million (1995—$9.7 million).

11. Related party transactions

Government departments provided the Commission with certain administrative services without charge. The cost of these services is not recorded in the Commission's accounts.

12. Financial statement presentation

A statement of changes in financial position has not been included because, in the opinion of management, it would not provide any meaningful additional information.

CANADIAN DAIRY COMMISSION—*Concluded*

SCHEDULE OF MARKETING OPERATIONS BY PRODUCT
FOR THE YEAR ENDED JULY 31, 1996
(in thousands of dollars)

	1996					1995				
	Butter	Skim milk powder	Evaporated milk	Other products*	Total	Butter	Skim milk powder	Evaporated milk	Other products*	Total
Export sales	36,204	122,315	35,518	18,123	212,160	2,685	106,881	15,195	13,844	138,605
Cost of goods sold	40,308	150,331	34,555	18,102	243,296	5,434	146,707	18,873	24,775	195,789
Loss (margin) on export sales	4,104	28,016	(963)	(21)	31,136	2,749	39,826	3,678	10,931	57,184
Domestic sales	84,965	5,980			90,945	68,845	7,388			76,233
Cost of goods sold	85,347	6,710			92,057	68,888	7,212			76,100
Loss (margin) on domestic sales	382	730			1,112	43	(176)			(133)
Total loss (margin) on sales	4,486	28,746	(963)	(21)	32,248	2,792	39,650	3,678	10,931	57,051
Assistance and expenses										
Dairy product assistance										
—Export	125	115	9	438	687	4,157	953	64	33,912	39,086
—Domestic	(1,608)	7,752	463	(196)	6,411	11,833	9,415	553	9,047	30,848
Inventory writedown	2,394	1,450			3,844	10,049	6,851	23	1	16,924
Carrying charges	4,442	1,441	256	75	6,214	3,134	1,342	171	52	4,699
Promotion	62	264			326	53	193			246
Recovery of doubtful accounts				(363)	(363)				(234)	(234)
	5,415	11,022	728	(46)	17,119	29,226	18,754	811	42,778	91,569
Administrative expenses					5,012					5,246
Donation					100					
Pool interest and bank charges					31					
Provision for losses on outstanding purchase commitments										1,856
Forgiveness of over-quota levies										5,883
Total assistance and expenses					22,262					104,554
Total cost of operations					54,510					161,605

* Include whole milk powder and cheese

CANADIAN FILM DEVELOPMENT CORPORATION

MANAGEMENT REPORT

The financial statements of the Canadian Film Development Corporation are the responsibility of management and have been approved by the Board of Directors of the Corporation. The financial statements have been prepared in accordance with generally accepted accounting principles and, where appropriate, include estimates based on the experience and judgement of management. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent with the financial statements.

Management maintains books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with the *Financial Administration Act* and its regulations, the *Canadian Film Development Corporation Act* and the by-laws and policies of the Corporation.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting as stated above. The Board exercises its responsibilities through the Audit Committee, which consists of directors who are not officers of the Corporation. The Audit Committee reviews the quarterly financial statements, as well as the annual financial statements and related reports; the Committee meets with the external auditors annually and, may make recommendations to the Board of Directors with respect to these and/or related matters.

The external auditor, the Auditor General of Canada, conducts an independent examination of the financial statements and reports to the Corporation and to the Minister of Canadian Heritage.

François Macerola
Executive Director

Danny Chalifour
Director of Finance

Montreal, Canada

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the Canadian Film Development Corporation as at March 31, 1997 and the statements of operations, equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation, the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Canadian Film Development Corporation Act* and the by-laws of the Corporation.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 30, 1997

CANADIAN FILM DEVELOPMENT CORPORATION—*Continued*

BALANCE SHEET
MARCH 31, 1997
with comparative figures for 1996
(in thousands of dollars)

ASSETS	1997	1996
Current assets		
Loans (Note 3)	9,022	11,929
Investments	265	428
Receivable from Canada (Note 4)	34,332	24,789
Accounts receivable	3,816	2,338
Prepaid expenses	376	590
	47,811	40,074
Loans (Note 3)	2,037	4,586
Investments		326
Capital assets (Note 5)	2,494	2,799
	52,342	47,785

LIABILITIES AND EQUITY OF CANADA	1997	1996
Current liabilities		
Accounts payable and accrued liabilities	20,365	11,325
Provision for employee termination benefits	697	690
Deferred lease inducements	138	166
Equity of Canada	31,142	35,604
Commitments (Note 9)		
Contingencies (Note 11)		
	52,342	47,785

See accompanying notes to financial statements.

Approved by the Board:

ROBERT DINAN
Chairman

Approved by Management:

FRANÇOIS MACEROLA
Executive Director

CANADIAN FILM DEVELOPMENT CORPORATION—*Continued*

STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 1997
with comparative figures for 1996
(in thousands of dollars)

			1997	1996
	Investments	Recoveries on investments	Net amount	Net amount
Assistance expenses				
Production and development				
Canada television and cable production fund (Note 7)	88,997	(15,551)	73,446	49,558
Feature film fund	20,972	(2,098)	18,874	18,352
Production revenue sharing program	5,943	(664)	5,279	4,789
Commercial production fund	4,347	(343)	4,004	3,155
Official co-productions	2,309	(101)	2,208	1,645
Other	874	(82)	792	85
	123,442	(18,839)	104,603	77,584
Distribution and marketing				
Feature film distribution fund	12,933	(4,640)	8,293	9,207
National and international marketing	2,089	(355)	1,734	1,970
	15,022	(4,995)	10,027	11,177
Versioning and subtitling	3,588	(2,183)	1,405	2,668
Complementary activities				
Industrial and professional development	1,653		1,653	1,178
Grants to Canadian festivals	1,595		1,595	1,392
Participation to foreign festivals	593		593	800
Participation to foreign markets	481		481	763
Advertising, promotion & publications	424		424	420
Closed captioning for the hearing impaired	173		173	510
Other	12		12	177
	4,931		4,931	5,240
	146,983	(26,017)	120,966	96,669
Operating expenses (Note 8)			16,018	16,163
Cost of operations for the year			136,984	112,832
Revenue				
Interest on loans			(204)	(344)
Other interest			(336)	(374)
Management fees			(37)	
			(577)	(718)
Net cost of operations for the year			136,407	112,114

See accompanying notes to financial statements.

CANADIAN FILM DEVELOPMENT CORPORATION—*Continued*

STATEMENT OF EQUITY OF CANADA
YEAR ENDED MARCH 31, 1997
with comparative figures for 1996
(in thousands of dollars)

	1997	1996
Balance at the beginning	35,604	38,761
Parliamentary appropriation	92,445	108,957
Contribution by the Department of Canadian Heritage	39,500	
Net cost of operations for the year	(136,407)	(112,114)
Balance at the end	31,142	35,604

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED MARCH 31, 1997
with comparative figures for 1996
(in thousands of dollars)

	1997	1996
Liquidity provided by (used in):		
Operations		
Net cost of operations for the year	(136,407)	(112,114)
Items not affecting liquidity		
Allowance for loan impairment	1,715	295
Write-offs of loans not previously written down		271
Amortization	981	995
Loss (profit) on disposal of capital assets	(8)	41
Increase (decrease) in the provision for employee termination benefits	7	(95)
Decrease in deferred lease inducements	(28)	(27)
	(133,740)	(110,634)
Net change in non liquidity items of working capital related to operations	7,776	2,889
	(125,964)	(107,745)
Investments		
Loans	(10,943)	(21,385)
Reimbursements of loans	14,684	8,749
Investments	(4)	(462)
Reimbursements of investments	493	2,148
Acquisition of capital assets	(700)	(418)
Proceeds from disposal of capital assets	32	7
	3,562	(11,361)
Financing		
Parliamentary appropriation	92,445	108,957
Contribution by Department of Canadian Heritage	39,500	
	131,945	108,957
Receivable from Canada		
Increase (decrease) in liquidity	9,543	(10,149)
Balance at the beginning	24,789	34,938
Balance at the end	34,332	24,789

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1997

1. Authority and activities

The Corporation was established in 1967 by the *Canadian Film Development Corporation Act* with the objective of fostering and promoting the development of a feature film industry in Canada. The Corporation has since been charged with the administration of the Canadian Broadcast Program Development Fund (Television Fund) established on July 1, 1983, within the framework of the Broadcasting Strategy for Canada as well as with the management of various new programs established under the National Film and Video Policy of May 1984. The Act was amended in June 1994 to grant the Corporation the authority to guarantee loans.

In September 1996, the Minister of Canadian Heritage created the Canada Television and Cable Production Fund (CTCPF). Created to foster a partnership between the government and the industry, this new fund brings together the Corporation's television fund and the cable distributors production fund. Two financial assistance programs constitute the CTCPF: the equity investment program and the license fee program. The Corporation was given the responsibility for the management of the equity investment program.

The Corporation is a Crown corporation subject inter alia to the provisions of Part VIII of the *Financial Administration Act* as it read before its repeal in 1984 and as if it continued to be named in Schedule C of the Act.

2. Significant accounting policies

(a) Financing sources of the Corporation

The Corporation obtains its funds mainly from the government of Canada by means of the Parliamentary appropriation and the contribution from the Department of Canadian Heritage. This financing comprises an amount for the Canada Television and Cable Production Fund and another amount for the development of a feature film industry. The parliamentary appropriation and the contribution from the Department of Canada Heritage are credited to the Equity of Canada.

(b) Liquidity and amount receivable from Canada

The financial operations of the Corporation are processed through the Consolidated Revenue Fund of Canada, thus the absence of bank accounts. For the purposes of the financial statements, its liquidity consists of a receivable from Canada. The amount receivable from Canada is comprised of the unused cumulative receipts and the disbursements made after year end and related to current year operations.

(c) Investments and allowance for losses

Investments include all forms of assistance granted for feature films and Canadian programming, excluding loans.

Investments granted in return for a share in operating revenues and accompanied by pre-established obligations to reimburse on a term generally not exceeding three years are shown on the balance sheet at their face value, less an allowance for losses. The allowance for losses is determined by examining each investment individually.

CANADIAN FILM DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1997—*Continued*

Investments granted in return for a share in operating revenues other than those accompanied by pre-established obligations to reimburse as well as non-recoverable investments are charged to operations as assistance expenses. These expenses are charged to operations in the year in which the funds are paid or have become payable.

Recoveries on investments, other than those recognized on the balance sheet, are credited to operations as a reduction of assistance expenses in the year in which the funds are received or have become receivable. Any proceeds in excess of the related investment is accounted for as revenues.

(d) Loans and allowance for losses

The Corporation grants loans for the financing of feature films and Canadian programming. Loans are shown on the balance sheet at principal amounts increased by accrued interest receivable, net of an allowance for impairment. The allowance for losses is determined by examining each loan individually. The evaluation is based on the receivables taken as security as well as the borrower's financial situation.

A loan is considered to be impaired as a result of a deterioration in credit quality to the extent that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected in accordance with the terms of the loan agreement. When a loan is considered impaired, the carrying amount of the loan is reduced to its estimated realizable value by discounting the expected cash flows at the effective interest rate inherent in the loan.

(e) Interest revenue

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of interest in accordance with the terms of the original loan agreement ceases.

(f) Other interest revenue

Other interest revenue are recognized on an accrual basis and represent the amounts charged on all amounts due to the Corporation, less an allowance for losses. This allowance for losses is determined by examining each amount individually.

(g) Capital assets

Capital assets are recorded at cost. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Computer installations	Diminishing balance	20%
Software	Straight-line	5 years
Furniture and equipment	Diminishing balance	20%
Leasehold improvements	Straight-line	Terms of the leases

(h) Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which they are earned by employees.

(i) Pension plan

Admissible employees participate in the superannuation plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the plan. This contribution represents the total liability of the Corporation. Contributions in respect of current services and admissible past services are expensed during the year in which payments are made. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

3. Loans and allowance for losses

The interest charged on loans does not exceed the prime rate, plus 2%. The loans have a term generally not exceeding three years.

As at March 31, 1997, the loans are detailed as follows:

			1997	1996
	Amount	Allowance for losses	Net amount	Net amount
	(in thousands of dollars)			
Loans	11,059		11,059	16,515
Impaired loans	2,079	(2,079)		
	13,138	(2,079)	11,059	16,515
Minus short-term portion	10,684	(1,662)	9,022	11,929
	2,454	(417)	2,037	4,586

The allowance for losses is detailed as follows:

	1997	1996
	(in thousands of dollars)	
Balance at beginning	610	1,200
Write-offs	(147)	(535)
Recoveries	(99)	(350)
Allowance	1,715	295
Balance at end	2,079	610

4. Receivable from Canada

As at March 31, the receivable from Canada is detailed as follows:

	1997	1996
	(in thousands of dollars)	
Unused cumulative receipts	14,524	14,109
Disbursements made after year end and related to current year operations	19,808	10,680
	34,332	24,789

CANADIAN FILM DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1997—*Continued*

5. Capital assets

	Cost	Accumulated amortization	1997 Net	1996 Net
	(in thousands of dollars)			
Computer installations	3,833	(2,617)	1,216	1,220
Leasehold improvements	1,327	(823)	504	548
Software	2,830	(2,384)	446	625
Furniture and equipment	2,059	(1,731)	328	406
	10,049	(7,555)	2,494	2,799

6. Employee departure programs

In order to meet budget reductions, the Corporation initiated in 1995-1996, early-retirement and departure programs. During 1996-1997, these programs involved disbursements of $1,318,842 (1996—$472,895), of which $971,539 (1996—$405,332) represent the current year's expense, the balance having been accumulated in prior years by the provision for employee termination benefits.

7. Canada Television and Cable Production Fund

	1997	1996
	(in thousands of dollars)	
Investments		
Canadian programming	79,403	63,444
Feature films	9,594	
	88,997	63,444
Recoveries on investments	(15,551)	(13,886)
	73,446	49,558

8. Operating expenses

	1997	1996
	(in thousands of dollars)	
Salaries and employee benefits	8,360	9,109
Rent, taxes, heating and electricity	2,068	2,185
Professional services	1,310	1,032
Office expenses	1,083	1,099
Amortization	981	995
Employee departure programs	972	405
Travel	657	628
Advertising and publications	224	148
Telecommunications	194	286
Hospitality	85	133
Relocation	84	143
	16,018	16,163

9. Commitments

(a) Projects

As at March 31, 1997, the Corporation is contractually committed to advance funds totalling $53,938,985 as loans and investments and has accepted to finance projects that may call for disbursements totalling $1,463,685. Under a production revenue sharing program, the Corporation has reserved funds totalling $2,581,507 as at March 31, 1997 for the financing of projects yet to be submitted under certain conditions.

(b) Leases

The Corporation has entered into long-term leases for the rental of office space and equipment used in its operations. The aggregate minimum annual rentals payable during subsequent years are as follows:

	Total (in thousands of dollars)
1998	2,208
1999	2,050
2000	1,890
2001	1,903
2002	1,900
2003-2006	2,455
	12,406

10. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

11. Contingencies

The Corporation guarantees the reimbursement of loans or debts incurred by third parties with financial institutions within the loan guarantee program. The total amount of the Corporation's guarantees cannot exceed, at any time, $25,000,000. The interest rate cannot exceed the lending institutions' prime rate plus 2%, and eligible security must be obtained from the borrower. The guarantees as at March 31, 1997 totalled $1,587,800 (1996-nil). A provision for losses is recorded when management can estimate that a loss is likely to occur.

In the ordinary course of business, various claims and lawsuits have been brought against the Corporation. In the opinion of management, the losses, if any, which may result from the settlement of the matters are not likely to be material and accordingly no provision has been made in the accounts of the Corporation. In the event that such expenses were to occur, they would be recognized as period costs.

CANADIAN FILM DEVELOPMENT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1997—*Concluded*

12. Fair value of financial assets and liabilities

The carrying amounts reported for investments, accounts receivable, accounts payable and accrued liabilities and commitments on projects approximate their fair value due to the relatively short periods to maturity of the instruments.

The following table presents the carrying amounts and fair values of the Corporation's other financial instruments:

	1997		1996	
	Carrying amount	Fair value	Carrying amount	Fair value
	(in thousands of dollars)			
Short-term loans	9,022	8,660	11,929	11,643
Long-term loans	2,037	1,849	4,586	4,171

The fair values of loans have been established by discounting the future contractual cash flows under current loan arrangements, at discount rates equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

13. Comparative figures

Some of the 1996 comparative figures have been reclassified to conform with the presentation adopted for 1997.

CANADIAN MUSEUM OF CIVILIZATION

MANAGEMENT'S RESPONSABILITY FOR FINANCIAL STATEMENTS

The financial statements contained in this annual report have been prepared by Management in accordance with generally accepted accounting principles, and the integrity and objectivity of the data in these financial statements are Management's responsibility.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as the *Museums Act* and the by-laws of the Corporation.

The Board of Trustees is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities, and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Trustees. The Board of Trustees has reviewed and approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, examines the financial statements and reports to the Minister of Canadian Heritage, who is responsible for the Canadian Museum of Civilization.

George F. MacDonald
President and Chief Executive Officer

J. (Joe) Geurts
Chief Operating Officer

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the Canadian Museum of Civilization as at March 31, 1997 and the statements of operations, equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Corporation.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 9, 1997

CANADIAN MUSEUM OF CIVILIZATION—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash and short-term investments (Note 3)	11,028	13,032
Accounts receivable (Note 4)	1,826	1,448
Inventories	1,311	1,467
Prepaid expenses	115	180
	14,280	16,127
Restricted cash and investments (Note 5)	4,099	3,134
Collection (Note 2)	1	1
Capital assets (Note 6)	12,947	11,372
	31,327	30,634

LIABILITIES	1997	1996
Current		
Accounts payable and accrued liabilities (Note 7)	8,577	7,663
Deferred revenues (Note 8)	4,263	3,229
	12,840	10,892
Long-term		
Accrued employee termination benefits	2,106	2,167
	14,946	13,059
EQUITY		
Equity of Canada (Note 9)	16,381	17,575
	31,327	30,634

The accompanying notes form an integral part of the financial statements.

Approved by Management:

GEORGE F. MacDONALD
President and Chief Executive Officer

JOE GEURTS
Chief Operating Officer

Approved by the Board of Trustees:

ADRIENNE CLARKSON
Chairwoman

PIERRE DUFOUR
Trustee

CANADIAN MUSEUM OF CIVILIZATION—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Expenses		
Personnel costs	25,776	24,555
Professional and special services	7,024	7,988
Repairs and maintenance	4,622	4,411
Exhibit design and fabrication	4,274	3,496
Amortization	2,379	2,722
Furniture and fixtures	1,774	1,861
Utilities	1,749	1,700
Building leases	1,590	1,644
Cost of goods sold (Note 10)	1,334	1,205
Communications	1,089	963
Marketing and advertising	1,052	854
Transportation	972	935
CINÉPLUS films	218	198
Rentals	127	157
Collection acquisitions	92	137
Protection services	4	558
Other	69	109
	54,145	53,493
Revenue		
General admission fees	1,923	1,649
Boutique sales	1,736	1,723
CINÉPLUS	1,670	1,862
Parking	660	685
Facility rental and food services concession	652	722
Interest on cash and short-term investments	497	845
Donations	345	476
Publications	208	312
Royalties	52	18
Other	994	975
	8,737	9,267
Excess of expenses over revenue before parliamentary appropriation	45,408	44,226

The accompanying notes form an integral part of the financial statements.

STATEMENT OF EQUITY OF CANADA
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Balance at beginning of year	17,575	15,597
Excess of expenses over revenue before parliamentary appropriation	(45,408)	(44,226)
Parliamentary appropriation for operations and acquisition of capital assets	44,214	46,204
Balance at end of year	16,381	17,575

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Operating activities		
Excess of expenses over revenue before parliamentary appropriation	(45,408)	(44,226)
Items not affecting funds		
Amortization net of disposal of capital assets	2,379	2,722
Employee termination benefits	(61)	139
	(43,090)	(41,365)
Change in non-cash operating assets and liabilities	826	(1,317)
Funds used for operating activities	(42,264)	(42,682)
Investing activities		
Acquisition of capital assets	(3,954)	(3,598)
Financing activities		
Parliamentary appropriation	44,214	46,204
Decrease in cash and short-term investments	(2,004)	(76)
Balance at beginning of year	13,032	13,108
Balance at end of year	11,028	13,032

The accompanying notes form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997

1. Mission and mandate

The Canadian Museum of Civilization was established on July 1, 1990 by the *Museums Act*. The Canadian Museum of Civilization is an agent Crown Corporation named in Part I of Schedule III to the *Financial Administration Act*. The Canadian War Museum is a component of the Canadian Museum of Civilization.

The mission, as stated in the *Museums Act*, is as follows:

"to increase, throughout Canada and internationally, interest in, knowledge and critical understanding of and appreciation and respect for human cultural achievements and human behaviour by establishing, maintaining and developing for research and posterity a collection of objects of historical or cultural interest, with special but not exclusive reference to Canada, and by demonstrating those achievements and behaviour, the knowledge derived from them and the understanding they represent."

In compliance with the *Museums Act*, assets, liabilities and equity belonging to the Canadian Museum of Civilization were transferred, as of July 1, 1990, from the National Museums of Canada to the Canadian Museum of Civilization, at book value.

CANADIAN MUSEUM OF CIVILIZATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

2. Significant accounting policies

(a) Inventories

Inventories, which consist of materials for the boutiques and publications, are valued at the lower of cost and net realizable value.

(b) Collection

The artifact collection forms the largest part of the assets of the Corporation, but it is presented in the balance sheet at a nominal value of $1,000, given the practical difficulties of determining a meaningful value for these assets.

Objects purchased for the collection of the Corporation are recorded as an expense in the year of acquisition. Objects donated to the Corporation are not recorded in the books of accounts.

(c) Capital assets

Capital assets were transferred to the Corporation on July 1, 1990 at the then book value of the National Museums of Canada. The value has been credited to the equity of Canada. Capital assets acquired since July 1, 1990 are recorded at cost.

Amortization is calculated using the straight-line method, over the estimated useful lives of assets:

Leasehold and building improvements	10 years
Office furniture and equipment	8 years
Technical and informatics equipment	5 and 8 years
Motor vehicles	5 years

Since the buildings are not owned by the Corporation, no amortization is taken.

(d) Pension Plan

Employees of the Corporation participate in the Public Service Superannuation Plan, administered by the Government of Canada. The Corporation matches these contributions equally for each employee, for the year in which services are rendered. These contributions are expended during the year in which services are rendered, and represent the total obligation of the Corporation for employee pension plan. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee termination benefits

Employees of the Corporation are entitled to specified benefits on termination, as provided for under labour contracts and conditions of employment. The cost of these benefits is expended in the year in which they are earned.

(f) Parliamentary appropriation

The parliamentary appropriation for operating and capital expenditures is credited to the equity of Canada during the fiscal year for which it is approved.

(g) Donations

Cash donations are deferred and recognized as revenue only when corresponding expenses are incurred. Cash donations for a specified purpose are managed in accordance with the donor's wishes whereas unspecified cash donations are used for exhibit development based on the by-laws of the Corporation.

3. Cash and short-term investments

The Corporation invests in the short-term money market. The overall portfolio yield as at March 31, 1997 was 4.4% (1996—7.3%). All instruments held in short-term investments are rated R1 or better by the Dominion Bond Rating Service. The average term to maturity is 46 days.

4. Accounts receivable

	1997	1996
	(in thousands of dollars)	
Refundable taxes	731	822
Trade accounts	942	562
Appropriation receivable	113	
Other	40	64
	1,826	1,448

5. Restricted cash and investments

Restricted cash and investments include cash donations received from individuals and corporate entities, and are managed in accordance with the donor's wishes and the by-laws of the Corporation. Cash donations are invested in accordance with the investment policies of the Corporation.

6. Capital assets

			1997	1996
	Cost	Accumulated amortization	Net book value	Net book value
	(in thousands of dollars)			
Leasehold and building improvements	16,618	6,918	9,700	8,581
Office furniture and equipment	5,570	4,571	999	1,304
Technical equipment	7,744	6,372	1,372	752
Informatics equipment	5,982	5,139	843	710
Motor vehicles	140	107	33	25
	36,054	23,107	12,947	11,372

7. Accounts payable and accrued liabilities

	1997	1996
	(in thousands of dollars)	
Trade accounts payable	5,597	4,812
Accrued salaries and vacation pay	2,093	2,228
Government departments and agencies	444	403
Current portion of accrued employee termination benefits	443	220
	8,577	7,663

CANADIAN MUSEUM OF CIVILIZATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

8. Deferred revenues

Deferred revenues include receipts from operations and cash donations which are related to future period activities. Receipts from operations are recognized when earned and cash donations are recognized when corresponding expenses are incurred.

Changes in the deferred revenues balance are as follows:

	1997	1996
	(in thousands of dollars)	
DONATIONS		
Balance at beginning of year	3,143	2,669
Add amount received in the year	1,314	950
Less amount recognized as revenue	345	476
Balance at end of year	4,112	3,143
OPERATIONS		
Balance at beginning of year	86	381
Add amount received in the year	151	86
Less amount recognized as revenue	86	381
Balance at end of year	151	86
Total deferred revenues	4,263	3,229

9. Equity of Canada

The equity of Canada represents the book value of assets and liabilities transferred from the former National Museums of Canada as of July 1, 1990, and the net results of operations of the Corporation since that date. However, it does not reflect the value of land and buildings occupied by the Corporation, as these are presently owned by the Government of Canada.

10. Cost of goods sold

The Corporation performed a market demand analysis of publishing inventory on hand as at March 31, 1997. The analysis resulted in a publishing inventory write-down of $313,283 which has been charged to cost of goods sold.

11. Related party transactions

The Corporation receives, without charge, collections management and auditing services from different government departments and agencies. The cost of these services are not reflected in the financial statements.

In addition to those related party transactions, disclosed elsewhere in these financial statements, the Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

12. Commitments

The Corporation has entered into long-term contracts for informatics, property leases and building maintenance services with a remaining value of $3,926,869.

13. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

CANADIAN MUSEUM OF NATURE

MANAGEMENT'S RESPONSIBILITY OF FINANCIAL REPORTING

Management is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations, and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying financial statements were prepared in accordance with generally accepted accounting principles. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

The Board of Trustees is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit and Finance Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, the Corporation's internal auditors and the Auditor General of Canada to review the manner in which these groups are performing their responsibilities, and to discuss auditing, internal controls, and other relevant financial matters. The Audit and Finance Committee has reviewed the financial statements with the Auditor General of Canada and has submitted its report to the Board of Trustees which has approved the financial statements.

The financial statements have been audited by the Auditor General of Canada. His report offers an independent opinion on the financial statements to the Minister of Canadian Heritage.

Colin C. Eades
Interim President and
Chief Executive Officer

Lynne Ladouceur, CA
Senior Full Time
Financial Officer

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the Canadian Museum of Nature as at March 31, 1997 and the statements of operations, equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Corporation.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 18, 1997

CANADIAN MUSEUM OF NATURE—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash and short-term investments (Note 3)	5,143	6,554
Accounts receivable		
Government departments and agencies	1,824	552
Parliamentary appropriations	129	1,833
Trade	822	318
Inventories	46	196
Prepaid expenses	476	341
	8,440	9,794
Restricted cash and short-term investments (Notes 3 and 4)	787	1,799
Restricted real property management cash and investments (Note 4)	7,086	5,486
Advances—Natural Heritage Building		1,412
Collections (Note 6)	1	1
Capital assets (Note 7)	39,604	2,037
	55,918	20,529

LIABILITIES	1997	1996
Current		
Accounts payable and accrued liabilities		
Trade	2,644	2,112
Natural Heritage Building (Note 8)	3,239	
Government departments and agencies	5,675	6,616
Current portion—Obligation under capital lease (Note 8)	115	
Deferred revenues (Note 9)	2,190	3,265
Provision for termination benefits	454	158
	14,317	12,151
Obligation under capital lease (Note 8)	34,026	
Provision for termination benefits	670	841
Deferred revenues (Note 9)	512	1,654
Endowment fund (Note 5)	250	250
	49,775	14,896
EQUITY OF CANADA	6,143	5,633
	55,918	20,529

The accompanying notes form an integral part of the financial statements.

Approved by the Board of Trustees:

FRANK LING
Chairman of the Board of Trustees

R. KENNETH ARMSTRONG
Chairman of the Audit and Finance Committee

Approved by Management:

COLIN C. EADES
Interim President and Chief Executive Officer

LYNNE LADOUCEUR, CA
Senior Full Time Financial Officer

CANADIAN MUSEUM OF NATURE—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Revenue		
Parliamentary operating appropriation (Note 10)	25,992	26,261
Commercial operations (Note 11)	964	1,071
Contributions (Note 9)	2,524	1,293
Educational programmes	263	376
Scientific services	47	114
Interest income	588	946
Other	24	20
	30,402	30,081
Expenses		
Personnel costs	10,124	12,390
Severance costs	1,444	1,121
Stonework project costs	5,000	2,990
Professional and special services	2,687	2,321
Information management infrastructure and systems	1,223	1,754
Real property leases and taxes	2,502	2,898
Interest on capital lease obligation	1,664	
Operation and maintenance of buildings	1,574	1,309
Amortization	1,797	796
Freight and cartage	1,065	349
Material and equipment	913	998
Marketing and communications	834	1,117
Repairs and maintenance	78	79
Travel	428	418
Write-off of capital assets	498	
Exhibits	348	380
Acquisitions of objects for collections	7	6
Other	17	32
	32,203	28,958
(Deficiency) excess of revenue over expenses	(1,801)	1,123
Reconciliation to government funding		
Add: items not requiring current operating funds (Note 14)	2,431	603
Excess of revenue over expenses after adding items not requiring current operating funds	630	1,726

The accompanying notes form an integral part of the financial statements.

STATEMENT OF EQUITY OF CANADA
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Balance, beginning of year	5,633	4,165
Parliamentary capital appropriation (Note 10)	2,311	345
(Deficiency) excess of revenue over expenses	(1,801)	1,123
Balance, end of year	6,143	5,633

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Operating activities		
(Deficiency) excess of revenue over expenses	(1,801)	1,123
Items not involving cash		
Amortization of capital assets	1,797	796
Employee termination benefits	125	(207)
Loss on disposal of capital assets	509	14
Deferred revenues	(1,730)	(2,572)
Net change in non-cash working capital	1,698	(1,249)
	598	(2,095)
Financing activities		
Parliamentary capital appropriation	2,311	345
Obligation under capital lease	34,141	
Sale of land		335
Due to Canada		(186)
	36,452	494
Investing activities		
Acquisition of capital assets	(2,311)	(345)
Natural Heritage Building	(37,562)	
Advances—Natural Heritage Building	1,412	(812)
	(38,461)	(1,157)
Decrease in cash and short-term investments	(1,411)	(2,758)
Cash and short-term investments, beginning of year	6,554	9,312
Cash and short-term investments, end of year	5,143	6,554

The accompanying notes form an integral part of the financial statements.

CANADIAN MUSEUM OF NATURE—*Continued*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997

1. Authority and mission

The Canadian Museum of Nature was established by the *Museums Act* on July 1st, 1990, and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

The Corporation's mission is to increase, throughout Canada and internationally, interest in, knowledge of and appreciation and respect for the natural world by establishing, maintaining, and developing for research and posterity a collection of natural history objects, with special but not exclusive reference to Canada, and by demonstrating the natural world, the knowledge derived from it and the understanding it represents.

2. Significant accounting policies

These financial statements are prepared in accordance with generally accepted accounting principles and reflect the following policies.

(a) Inventory

Inventory of publications is valued at the lower of cost or net realizable value.

(b) Capital assets

Capital assets are recorded at cost. Assets recorded as capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Amortization is calculated on the straight-line method using rates based on the estimated useful life of the assets as follows:

Property under capital lease	35 years
Collection cabinets and compactors	35 years
Research equipment	10 years
Technical equipment	10 years
Furnishings and office equipment	10 years
Motor vehicles	5 years
Computer equipment and software	3 years

Major leasehold improvements are capitalized and amortized over the term of the respective leases to a maximum period of five years.

Material and equipment acquired for the purpose of the design, development and maintenance of exhibits are charged to operations in the year of acquisition.

(c) Collections

The Canadian Museum of Nature holds and preserves invaluable collections of natural history specimens for the benefit of Canadians, present and future. The collections form the largest part of the assets of the Corporation. The collections are shown as an asset on the balance sheet at a nominal value of $1,000 to ensure that the reader is aware of disclosure issues concerning the description of the collections and the stewardship policies followed by the Museum.

Objects purchased for the collections are recorded as an expense in the year of acquisition. Objects donated to the Corporation are not recorded in the books of account.

(d) Pension plan

The Corporation's employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are made both by the employees and the Corporation on an equal basis. These contributions represent the total pension obligations of the Corporation and are recognized in the accounts on a current basis.

The Corporation is not required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee termination benefits

Employees of the Corporation are entitled to specified benefits on termination as provided under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees under the respective terms of employment.

The Corporation has established Early Departure Incentive (EDI) and Early Retirement Incentive (ERI) Programs consistent with those offered to the Public Service under Treasury Board Guidelines. The costs of such severance are disclosed in the financial statements, including proportional reimbursements from Treasury Board for severance liabilities accruing before July 1, 1990.

(f) Services without charge

The Corporation does not record in the financial statements the value of the following services it receives without charge:

— Volunteer and other services donated by individuals and corporate entities and,

— Auditing services from the Office of the Auditor General.

(g) Parliamentary appropriations

Parliamentary appropriations for operating expenses are included as revenue. Parliamentary appropriations to acquire capital assets are credited to Equity of Canada.

(h) Contributions revenue recognition

The Corporation receives donations, gifts and bequests from individuals and corporate entities. These contributions are to be used for the purposes for which they were donated. Contributions and interest are recognized as revenue in the year in which the related expenses are incurred.

3. Cash and short-term investments

The Corporation invests operating and restricted funds in the short-term money market. The overall portfolio yield as at March 31, 1997 was 3.03% (1996—5.04%). Treasury policies for the Corporation limit investments to instruments held in short-term investments to a maximum of 36 months rated AA or better and guaranteed by the Government of Canada, a provincial government or the Royal Bank of Canada. The average term to maturity is 30.37 days. The cost of the portfolio approximates its fair market value.

CANADIAN MUSEUM OF NATURE—*Continued*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997—*Continued*

4. Restricted cash and short-term investments

Restricted cash and short-term investments accounts include contributions received from individuals and corporate entities, by way of bequest, gift or donation and may be specific as to purpose. Restricted cash accounts are managed in accordance with the donor's wishes and are invested in accordance with investment policies of the Corporation.

Restricted cash and short-term investments also include parliamentary appropriation received during the year which is restricted for the Victoria Memorial Museum Building stonework project.

Restricted cash accounts are comprised of:

	1997	1996
	(in thousands of dollars)	
Restricted research cash	294	300
Restricted programming cash	174	1,184
Systematic entomology endowment fund (Note 5)	319	315
	787	1,799
Stonework project	7,086	5,486
	7,873	7,285

5. Endowment Fund

The Corporation maintains an endowment in the principal amount of $250,000 received from Anne and Henry Howden which included a significant entomological collection. The endowment was established to enable professional studies and research of entomological collections for the Museum.

The principal of the Systematic Entomological Endowment Fund can not be expended. Accumulated interest earned from the endowment may be expended for specified purposes and the residual balance totalled $68,000 at March 31, 1997 ($65,400 at March 31, 1996) which is included in deferred revenues (Note 9).

In the event that the Corporation decides not to maintain entomological collections, the Systematic Entomology Endowment Fund shall be transferred, along with any entomological collections, to the Royal Ontario Museum.

6. Collections

The Canadian Museum of Nature holds and preserves invaluable collections of natural history specimens for the benefit of Canadians, present and future. The collections form the largest part of the assets of the Corporation.

The natural history collections consist of over 10 million specimens and grew by 4,408 items this fiscal year. They are an exceptional scientific resource that is available nationally and internationally for research, exhibits, and education.

The collections are divided into four discipline-related groups, being:

- the Earth Sciences collections (minerals, rocks, gems, fossils)
- the Vertebrates collections (mammals, fish, birds, amphibians, reptiles)
- the Invertebrates collections (molluscs, insects, crustaceans, parasites, worms, others)
- the Botany collections (algae, vascular plants, mosses, lichens).

The stewardship of the collection is the responsibility of the Collections Division and is monitored by the Collections Advisory and Collections Development Committees. The Museum has taken a major step in the preservation of its collections by moving them into a new state-of-the-art Natural Heritage Building in Aylmer, Quebec, acquiring new collection cabinets to replace all old sub-standard units and implementing several other upgrades to storage and risk management procedures. During the cleanup for the move, some surplus specimens were deaccessioned, being transferred to other institutions, sent for destruction or sold.

7. Capital assets

	1997			1996
	Cost	Accumulated amortization	Net book value	Net book value
Land	505		505	505
Property under capital lease	35,187	995	34,192	
Collection cabinets and compactors	3,523	101	3,422	
Computer equipment and software	2,261	2,126	135	510
Research equipment	1,399	1,191	208	38
Furnishings and office equipment	1,303	458	845	204
Leasehold improvements	1,621	1,413	208	413
Technical equipment	279	190	89	367
Motor vehicles	117	117		
	46,195	6,591	39,604	2,037

8. Capital lease and secondary financing obligations

The Corporation signed a project agreement, dated December 15, 1995 with a selected developer, for the construction of a corporate consolidated facility to be known as the National Heritage Building (NHB), to house the Canadian Museum of Nature natural history collections and administrative functions, on the Corporation's site in Aylmer, Quebec. During the year, the Corporation moved to the new facility.

The Corporation is acquiring the building through a lease purchase agreement with a term of 35 years. It is committed to pay rent under all circumstances and in the event of termination of the lease, at the Corporation's option or otherwise, pay sufficient rent to repay all financing on the building. Management intends to completely discharge its obligation under the lease and obtain free title to the building in 35 years.

In addition, in 1997-98, the Corporation intends to seek secondary debt financing from a private financial institution to pay the amount currently recorded as Payable-Natural Heritage Building.

CANADIAN MUSEUM OF NATURE—*Continued*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997—*Continued*

Future minimum lease and debt repayments, by year and in aggregate, under the financing obligations are as follows:

	Obligation under capital lease	Estimated obligation to finance Payable-NHB	Total financing obligations
	(in thousands of dollars)		
1998	3,500	1,326	4,826
1999	3,500	279	3,779
2000	3,500	279	3,779
2001	3,500	279	3,779
2002	3,500	279	3,779
Thereafter	105,001	1,908	106,909
Total minimum future payments	122,501[1]	4,350[2]	126,851
Deduct: imputed interest	(88,360)	(1,111)	(89,471)
Present value of financing obligation	34,141	3,239	37,380

[1] The amounts payable under the capital lease are based on the fixed interest rate of 9.88%, for a period of 35 years, established at the time of signing the lease.

[2] Consistent with its intention, management has estimated the total amounts payable under the obligation to finance the Payable-NHB based on interest rates and repayment terms considered probable for such financing.

9. Deferred revenues and contributions

Deferred revenues include receipts from operations and contributions of gifts and bequests which have not yet been earned and relate to future period activities. Revenues from contributions are recognized when corresponding expenses are incurred.

Changes in the deferred revenues balance and the recognition of contributions are as follows:

	1997	1996
	(in thousands of dollars)	
Beginning balance	4,919	5,047
Less amount recognized as contributions	(2,524)	(1,293)
Add amounts received relative to future years	307	1,165
Ending balance	2,702	4,919

Deferred revenues are comprised of:

	1997	1996
	(in thousands of dollars)	
Short-term		
Deferred revenue—Stonework project	2,093	2,465
Deferred revenue—Collections cabinets		800
Other deferred revenues	97	
	2,190	3,265
Long-term		
Restricted research cash	294	300
Restricted programming cash	150	1,184
Restricted endowment fund interest	68	65
Other deferred revenues		105
	512	1,654
Total deferred revenues	2,702	4,919

10. Parliamentary appropriations

Parliamentary appropriations are provided for operating expenditures in accordance with Government of Canada policy for funding current operations and are recorded as income.

Parliamentary appropriations for capital acquisitions are credited to Equity of Canada.

	1997	1996
	(in thousands of dollars)	
Department of Canadian Heritage	27,002	26,477
Due to Canada—Deemed repayment		186
Tresury Board submission—Severance costs	129	344
Total recognized	27,131	27,007
Total appropriations have been applied as follows:		
Operating expenses	20,992	23,271
Parliamentary appropriations—Stonework project	5,000	2,990
Deferred operating expenses recognized	(3,265)	(2,864)
	22,727	23,397
Capital acquisitions	2,311	345
Deferred revenue—Stonework project	2,093	2,465
Deferred revenue—Collection cabinets		800
Total applied	27,131	27,007

CANADIAN MUSEUM OF NATURE—*Concluded*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1997—*Concluded*

11. Commercial operations

Commercial operations revenue is comprised as follows:

	1997	1996
	(in thousands of dollars)	
Boutique revenue	242	325
Cost of goods sold	(156)	(182)
Write-off of inventory	(36)	
Boutique gross profit	50	143
Publishing revenue	147	110
Cost of goods sold	(57)	(83)
Publishing gross profit	90	27
Publishing royalties	93	69
Admission fees	338	424
Parking	194	221
Rental of facilities	199	187
Other commercial activities	824	901
Total commercial operations revenue	964	1,071

12. Related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

13. Contractual commitments

The Corporation has entered into agreements for the provision of services and equipment. The payments under these agreements are approximately as follows:

	1998	1999 and subsequent years
	(in thousands of dollars)	
Victoria Memorable Museum Building maintenance	973	
Natural Heritage Building maintenance	600	1,200
Stonework project costs	2,095	
Other commitments	1,088	103
	4,756	1,303

14. Items not requiring current operating funds

Items included in the statement of operations not requiring current operating funds:

	1997	1996
	(in thousands of dollars)	
Amortization of capital assets	1,797	796
Employee termination benefits	125	(207)
Loss on disposal of capital assets	509	14
Net items not requiring current operating funds	2,431	603

15. Comparative figures

The 1996 comparative figures have been reclassified to conform to the 1997 financial statement presentation.

THE CANADIAN WHEAT BOARD

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 31, 1997
WERE NOT AVAILABLE AT DATE OF PRINTING

THE CANADIAN WHEAT BOARD—*Continued*

MANAGEMENT REPORT

The financial statements of The Canadian Wheat Board together with other information contained in this annual report have been prepared by management, who have full responsibility for them, and approved by the Board. These statements reflect the results for the year ended July 31, 1996 and the financial status of the CWB as at that date.

Management's responsibility includes ensuring that the financial statements are prepared in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied, and that appropriate systems of internal controls and formal policies and procedures are in place to ensure the integrity and reliability of accounting and financial reporting, as well as the safety of all of the organization's assets.

Deloitte & Touche, Chartered Accountants, the CWB's external auditors, have performed an independent examination of the financial statements in this report. Management has made available to the external auditors all financial records and related data.

The Canadian Wheat Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Commissioners, along with the Chairman of the CWB Advisory Committee, act as an Audit Committee in exercising this responsibility. The committee meets with the external auditors to discuss the results of the audit and the evaluation of the CWB's internal controls. The Internal Audit Department, reporting directly to the Audit Committee, has a mandate to provide timely recommendations and assessments concerning the effectiveness of internal controls. The committee reviews the action taken by management with respect to the recommendations made by the internal and external auditors.

Donald E. Vernon, CA
Executive Director,
Finance and Treasurer

Adrian Measner
Executive Director,
Marketing

AUDITORS' REPORT

TO THE CANADIAN WHEAT BOARD

We have audited the financial statements of the Canadian Wheat Board set out as Exhibits I to IX and notes thereto which include the balance sheet at July 31, 1996 and the statements of operations and distribution of earnings to producers for the 1995-96 pool accounts for wheat and barley for the period, August 1, 1995 to completion of operations on July 31, 1996 and for amber durum wheat and designated barley for the period August 1, 1995 to completion of operations on September 30, 1996, the statement of cash flow for the year ended July 31, 1996, the statement of advance payments to producers under the *Prairie Grain Advance Payments Act* as at July 31, 1996, the statement of administrative and general expenses and allocations to operations for the year ended July 31, 1996, and the statement of special account transactions for the year ended July 31, 1996. These financial statements are the responsibility of the Canadian Wheat Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 1996 and the results of its operations and the changes in its financial position for the periods shown in accordance with generally accepted accounting principles.

Deloitte & Touche

Winnipeg, Canada
December 20, 1996

THE CANADIAN WHEAT BOARD—*Continued*

BALANCE SHEET AS AT JULY 31, 1996 — EXHIBIT I

ASSETS	1996	1995
	$	$
Accounts receivable		
Credit sales (Note 3)	6,653,277,799	6,731,555,955
Completed sales	25,669,295	69,948,437
Prairie Grain Advance Payments Act	52,651,783	63,080,272
Other	21,433,734	6,067,583
	6,753,032,611	6,870,652,247
Stocks of grain (Note 4)	1,432,610,530	1,096,984,965
Deferred and prepaid expenses (Note 5)	51,440,276	28,398,643
Fixed assets (Note 6)	44,162,927	47,304,606
Total assets	8,281,246,344	8,043,340,461

LIABILITIES	1996	1995
	$	$
Borrowings (Note 7)	6,459,297,949	6,492,291,399
Accounts payable and accrued expenses (Note 8)	107,957,005	89,626,603
Liability to agents of the CWB (Note 9)	1,159,716,160	651,706,561
Liability to producers (Note 10)	545,233,825	801,177,621
Provision for final payment expenses (Note 11)	5,805,860	6,053,405
Special account—Net balance of undistributed payment accounts (Note 12)	3,235,545	2,484,872
Total liabilities	8,281,246,344	8,043,340,461

Approved:

LORNE F. HEHN
Chief Commissioner

RICHARD H. KLASSEN
Commissioner

GORDON P. MACHEJ
Commissioner

DONALD E. VERNON
Executive Director, Finance and Treasurer

THE CANADIAN WHEAT BOARD—*Continued*

1995-96 POOL ACCOUNT—WHEAT
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS
for the period August 1, 1995 to completion of operations on July 31, 1996
(with prior year comparatives for the period ended August 31, 1995)

EXHIBIT II

	1995-96		1994-95	
	Amount	Rate per Tonne	Amount	Rate per Tonne
	$	$	$	$
Receipts from producers: Tonnes	14,352,453		14,640,658	
Revenue (Note 15)	3,812,102,708	265.606	2,919,771,669	199.429
Deduct operating costs				
Country elevator carrying charges	53,088,474	3.699	47,772,308	3.263
Terminal storage	8,309,959	0.579	12,394,015	0.847
Demurrage/Despatch	9,884,097	0.688	4,633,149	0.316
Additional freight—To terminals	25,677,413	1.789	26,373,670	1.801
—Freight rate change	6,958,629	0.485	17,806,373	1.216
Drying	149,237	0.010	967,387	0.066
Interest and depreciation on CWB hopper cars	3,400,351	0.237	2,965,914	0.203
Administrative expenses	27,502,595	1.916	27,172,609	1.857
Interest earnings	(61,089,432)	(4.256)	(48,853,943)	(3.337)
	73,881,323	5.147	91,231,482	6.232
Earnings distributed to producers	3,738,221,385	260.459	2,828,540,187	193.197
Earnings distributed as follows				
Initial payments at delivery	2,918,509,781	203.346	2,073,703,397	141.640
Adjustment payments	662,262,615	46.143	478,563,676	32.687
Interim payment			145,292,645	9.924
Final payment	157,283,664	10.959	130,835,493	8.936
Rebate on producer cars	165,325	0.011	144,976	0.010
	3,738,221,385	260.459	2,828,540,187	193.197

THE CANADIAN WHEAT BOARD—*Continued*

1995-96 POOL ACCOUNT—AMBER DURUM WHEAT
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS
for the period August 1, 1995 to completion of operations on September 30, 1996
(with prior year comparatives for the period ended August 31, 1995)

EXHIBIT III

	1995-96		1994-95	
	Amount	Rate per Tonne	Amount	Rate per Tonne
	$	$	$	$
Receipts from producers: Tonnes	3,973,384		4,068,116	
Revenue (Note 15)	1,130,364,370	284.484	1,093,295,512	268.748
Deduct operating costs				
Country elevator carrying charges	14,386,754	3.621	11,998,159	2.949
Terminal storage	7,956,863	2.002	6,634,318	1.631
Demurrage/Despatch	(781,718)	(0.197)	552,796	0.136
Additional freight—To terminals	3,510,438	0.883	1,443,688	0.355
—Freight rate change	1,304,605	0.328	5,133,718	1.262
Drying	78,839	0.020	134,374	0.033
Interest and depreciation on CWB hopper cars	941,365	0.237	815,987	0.200
Administrative expenses	8,004,750	2.015	7,553,119	1.857
Interest earnings	(9,334,782)	(2.349)	(9,164,415)	(2.253)
	26,067,114	6.560	25,101,744	6.170
Earnings distributed to producers	1,104,297,256	277.924	1,068,193,768	262.578
Earnings distributed as follows				
Initial payments at delivery	831,562,780	209.284	676,263,633	166.235
Adjustment payments	175,425,808	44.150	181,094,727	44.516
Interim payment	41,703,041	10.496	121,066,889	29.760
Final payment	55,592,731	13.991	89,740,937	22.060
Rebate on producer cars	12,896	0.003	27,582	0.007
	1,104,297,256	277.924	1,068,193,768	262.578

THE CANADIAN WHEAT BOARD—*Continued*

1995-96 POOL ACCOUNT—BARLEY
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS
for the period August 1, 1995 to completion of operations on July 31, 1996
(with prior year comparatives for the period ended August 31, 1995)

EXHIBIT IV

	1995-96		1994-95	
	Amount	Rate per Tonne	Amount	Rate per Tonne
	$	$	$	$
Receipts from producers: Tonnes	1,267,781		1,059,655	
Revenue (Note 15)	266,619,989	210.304	120,312,684	113.540
Deduct operating costs				
Country elevator carrying charges	4,261,033	3.361	1,352,257	1.276
Terminal storage	1,666,050	1.314	1,599,084	1.509
Demurrage/Despatch	283,322	0.223	7,143,566	6.741
Additional freight—To terminals	(635,706)	(0.501)	4,229,443	3.991
—Freight rate change	1,080,912	0.853	(1,021,069)	(0.964)
Drying	13,027	0.010	540,959	0.511
Interest and depreciation on CWB hopper cars	300,360	0.237	212,547	0.201
Administrative expenses	2,442,236	1.926	1,970,956	1.860
Interest earnings	(5,970,870)	(4.710)	(4,712,224)	(4.447)
	3,440,364	2.713	11,315,519	10.678
Earnings distributed to producers	263,179,625	207.591	108,997,165	102.862
Earnings distributed as follows				
Initial payments at delivery	220,053,281	173.574	101,403,742	95.695
Adjustment payments	32,304,766	25.481	5,586,191	5.272
Final payment	10,808,345	8.526	1,992,694	1.881
Rebate on producer cars	13,233	0.010	14,538	0.014
	263,179,625	207.591	108,997,165	102.862

THE CANADIAN WHEAT BOARD—*Continued*

1995-96 POOL ACCOUNT—DESIGNATED BARLEY
STATEMENT OF OPERATIONS AND
DISTRIBUTION OF EARNINGS TO PRODUCERS
for the period August 1, 1995 to completion of operations on September 30, 1996
(with prior year comparatives for the period ended September 30, 1995)

EXHIBIT V

	1995-96		1994-95	
	Amount	Rate per Tonne	Amount	Rate per Tonne
	$	$	$	$
Receipts from producers: Tonnes	2,549,505		2,260,241	
Revenue (Note 15)	620,029,297	243.196	392,143,240	173.496
Deduct operating costs				
Country elevator carrying charges	243,513	0.096		
Demurrage/Despatch	(6,929)	(0.003)	371,587	0.164
Additional freight—To terminals	8,495	0.003		
—Freight rate change	(33,653)	(0.013)		
Interest and depreciation rate on CWB hopper cars	604,023	0.237	453,362	0.200
Administrative expenses	4,885,483	1.916	4,221,791	1.868
Interest earnings	(4,468,138)	(1.752)	(3,692,079)	(1.633)
	1,232,794	0.484	1,354,661	0.599
Earnings distributed to producers	618,796,503	242.712	390,788,579	172.897
Earnings distributed as follows				
Initial payments at delivery	493,505,162	193.569	323,355,989	143.062
Adjustment payments	80,823,962	31.702	25,061,049	11.088
Interim payment			15,800,510	6.991
Final payment	33,696,550	13.217	19,248,558	8.516
Producer contract storage	10,770,829	4.224	7,322,473	3.240
	618,796,503	242.712	390,788,579	172.897

STATEMENT OF CASH FLOW
for the year ended July 31

EXHIBIT VI

	1996	1995
	$	$
Cash flow from operating activities		
Cash received from the sale of grain	5,829,116,364	4,525,523,105
Interest earned	80,863,222	66,422,661
Cash paid for operating costs	(185,484,817)	(195,426,067)
Add items not requiring an outlay of cash—Depreciation	4,745,328	4,902,293
Cash flow from operating activities before working capital changes	5,729,240,097	4,401,421,992
Changes in working capital	176,462,652	203,632,179
	5,905,702,749	4,605,054,171
Cash flow from other activities		
Decrease in accounts receivable—Credit sales	78,278,156	273,315,177
Purchase of fixed assets	(1,603,649)	(2,180,899)
	76,674,507	271,134,278
Net cash flow before distribution	5,982,377,256	4,876,188,449
Cash distributed to producers		
Cash balance undistributed in prior year	(524,164,822)	(669,503,418)
Current year balances distributed to producers prior to July 31	(5,425,218,984)	(3,872,354,877)
	(5,949,383,806)	(4,541,858,295)
Net increase in cash	32,993,450	334,330,154
Borrowings at beginning of year	(6,492,291,399)	(6,826,621,553)
Borrowings at end of year	(6,459,297,949)	(6,492,291,399)

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF ADVANCE PAYMENTS TO PRODUCERS
UNDER THE *PRAIRIE GRAIN ADVANCE PAYMENTS ACT*
as at July 31

EXHIBIT VII

	Cash advances to producers	Advances repaid by producers	1996 Balance to be refunded by producers	1995 Balance to be refunded by producers
	$	$	$	$
Balance to be refunded by producers				
1988-89 and prior crop years	4,705,363,450	4,694,737,418	10,626,032	11,009,424
1989-90 crop year	144,260,874	141,743,926	2,516,948	2,679,201
1990-91 crop year	1,461,790,445	1,453,035,631	8,754,814	9,990,122
1991-92 crop year	1,163,737,749	1,153,270,994	10,466,755	12,417,719
1992-93 crop year	1,081,150,782	1,066,950,537	14,200,245	19,351,257
1993-94 crop year	819,208,984	793,347,550	25,861,434	47,759,262
1994-95 crop year	524,197,302	517,154,685	7,042,617	82,106,768
1995-96 crop year	542,198,368	475,022,308	67,176,060	
	10,441,907,954	10,295,263,049	146,644,905	185,313,753
Interest costs payable by Government of Canada				
Interest costs payable by Government of Canada			374,263,690	363,318,141
Deduct amounts received from Government of Canada			(373,549,555)	(362,884,742)
			714,135	433,399
Interest charges payable by producers				
Regular interest payable by producers			29,376,803	28,583,698
Deduct amounts received from producers			(25,587,645)	(24,044,229)
			3,789,158	4,539,469
Default interest				
Interest received from producers on default payments			(32,161,743)	(28,248,464)
Deduct amounts forwarded to the Government of Canada			26,860,281	22,708,061
			(5,301,462)	(5,540,403)
Deduct balance of funds received from				
Government of Canada to cover advance payments in default			(90,984,373)	(118,863,693)
Line elevator companies to cover advance payments in default			(1,903,388)	(2,472,354)
Line elevator companies to cover current advances			(307,192)	(329,899)
			(93,194,953)	(121,665,946)
			52,651,783	63,080,272

Since the 1990-91 crop year, the producer pays interest on the part of the cash advance that is in excess of $50,000, and the Government of Canada pays interest on advances up to $50,000 (except 1993-94 when the producer paid interest on the part of the cash advance that was in excess of $60,000 and was required to pay the first 2.25% interest on advances up to $60,000). During the 1989-90 crop year, the producer was required to pay all of the interest on the cash advance. Prior to this, the Government of Canada paid all of the interest.

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF ADMINISTRATIVE AND GENERAL EXPENSES AND ALLOCATIONS TO OPERATIONS
for the year ended July 31, 1996

EXHIBIT VIII

	1996	1995
	$	$
Administrative and general expenses:		
Advisory Committee (includes election expenses in 1994-95)	258,516	362,446
Annual report, Grain Matters and other CWB publications	290,812	246,616
Area representatives	299,377	277,238
Audit fees	153,000	153,000
Bonds and insurance	57,469	42,725
Canadian International Grains Institute—CWB share of operating expenses	1,400,333	1,347,850
Communications and information	262,746	73,609
Computing equipment—Rentals and services	2,953,633	4,113,244
Consulting and legal costs—Trade challenge		621,170
Depreciation on automobiles, building, computers, equipment and furniture	1,852,188	1,985,826
District meetings	21,204	43,351
Human resources—Salaries	21,000,991	21,063,990
Human resources—Unemployment insurance, pension, group insurance, medical and other employee benefits	5,139,259	4,734,852
Human resources—Recruitment	71,026	156,495
Human resources—Training and development	320,134	271,837
Legal fees and court costs	21,800	114,488
Management consulting	534,912	285,173
Manitoba Health and Education Tax	484,452	411,767
Office and miscellaneous	927,563	1,199,285
Postage	1,042,426	928,020
Printing, stationery and supplies	821,949	880,154
Publications and subscriptions	274,182	283,641
Rental and lighting of offices, including maintenance of The Canadian Wheat Board building	2,075,693	1,936,027
Repair and rental of office equipment	237,602	210,239
Telecommunications	668,895	748,195
Travelling and transfer of staff	1,303,016	1,531,209
	42,473,178	44,022,447

	1996	1995
	$	$
Allocations to operations:		
Marketing of producers' grain		
1995-96 Pool accounts		
—Wheat	15,037,940	
—Durum	4,163,157	
—Barley	1,328,331	
—Designated barley	2,671,272	
1994-95 Pool accounts		
—Wheat	12,315,958	14,601,085
—Durum	3,422,165	4,057,120
—Barley	891,399	1,056,791
—Designated barley	1,926,933	2,254,131
1993-94 Pool accounts		
—Wheat		14,773,722
—Durum		3,053,691
—Barley		1,991,179
—Designated barley		1,492,842
Cost allocated to pool accounts based on relative tonnage	41,757,155	43,280,561
Distributing final payments to producers 1989-90 to 1994-95 Pool accounts (1988-89 to 1993-94 Pool accounts for the prior year)		
—Wheat	441,361	450,931
—Durum	124,417	87,754
—Barley	81,228	149,250
—Designated barley	69,017	53,951
Cost allocated to payment accounts based on activity	716,023	741,886
	42,473,178	44,022,447

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF SPECIAL ACCOUNT TRANSACTIONS
for the year ended July 31

EXHIBIT IX

	1996	1995
	$	$
Balance of special account at beginning of year	2,484,872	3,470,850
Add transfer to special account from payment accounts authorized by Order-in-Council P.C. 1996-1356 and 1996-1357	1,360,539	
	3,845,411	3,470,850
Deduct expenditures authorized by Order-in-Council noted below	(609,799)	(985,898)
Deduct payments to producers against old payment accounts	(67)	(80)
Balance of special account at end of year	3,235,545	2,484,872

Details of expenditures:

Authorized by Order-in-Council	Description of purpose	Unexpended as at July 31, 1995	Authorized crop year 1995-96	Unexpended as at July 31, 1996	Expended crop year 1995-96
		$	$	$	$
P.C. 1994-1305 P.C. 1995-2202	Market development	445,378		335,783	109,595
P.C. 1995-2203 P.C. 1996-1358	Canadian International Grains Institute—Capital expenditures	169,228	115,000	115,000	169,228
P.C. 1990-1538	Scholarship program	48,559	301,441	44,024	305,976
P.C. 1991-2548	Founding chairs program	25,000			25,000
		688,165	416,441	494,807	609,799

As at July 31, 1996 there were unexpended authorizations totalling $494,807 leaving an unallocated balance of $2,740,738.

THE CANADIAN WHEAT BOARD—*Continued*

NOTES TO FINANCIAL STATEMENTS

The following are an integral part of the financial statements.

1. Act of incorporation and mandate

The Canadian Wheat Board (CWB) was established by the *Canadian Wheat Board Act*, a statute of the Parliament of Canada. The CWB was created as an agent of Her Majesty in right of Canada for the purpose of marketing in an orderly manner, in inter provincial and export trade, grain grown in Western Canada. The CWB is accountable for its affairs to Parliament through the Minister responsible for the Canadian Wheat Board.

2. Summary of significant accounting policies

(a) Results of operations

The annual accounts at July 31 include the final operating results of all pool accounts for the crop year ended July 31, where marketing operations have been completed before the issuance of the annual report for that year. In determining the financial results for such pools, the accounts of the CWB at July 31 include:

(i) Stocks of grain on hand at July 31 at the values which were ultimately received as sale proceeds.

(ii) Provision for all expenses incurred or to be incurred in the process of marketing these stocks of grain including a charge for the portion of administrative and general expenses to be incurred subsequent to July 31 but relating to this marketing activity. Expenses related to marketing activities carried out subsequent to July 31 are included in accrued expenses and accounts payable. The expenses included are carrying charges, storage, interest, rail freight and other transportation charges, and administrative costs, together with all other sundry expenses incurred during the period.

(iii) Balances not yet distributed to producers at July 31 where marketing operations have been completed for the 1995-96 pool accounts are included in Liability to producers.

(b) Allowances for losses on accounts receivable from credit sales

The Government of Canada guarantees the principal and interest of both the accounts receivable resulting from sales made under the Credit Grain Sales Program and the CWB's borrowings incurred to finance these accounts receivable. Because of these guarantees, the CWB is not at risk should any of the unpaid amounts prove to be uncollectible. For credit sales made outside of the Credit Grain Sales Program, the CWB has entered into arrangements with a Canadian financial institution to guarantee that the CWB has no credit risk. Therefore, no provision is made by the CWB with respect to the possibility of debtors defaulting on their obligations.

(c) Fixed assets and depreciation

Fixed assets are recorded at cost and depreciated on a straight line method over their expected useful life as follows:

Computer equipment	1 to 5 years (to 1/20 residual value)
Automobiles	2 years (to 1/3 residual value)
Building and office alterations	3 years
Office furniture and equipment	10 years
Hopper cars	30 years
Building	40 years

(d) Translation of foreign currencies

Sales contracts denominated in foreign currencies are hedged by forward exchange contracts and are translated into Canadian dollars at the rate provided therein. Other income and expenses are translated at the daily exchange rates in effect during the year.

Assets and liabilities denominated in United States dollars are translated at the exchange rate in effect at the balance sheet date. The CWB hedges its United States dollar assets and liabilities on a total portfolio basis. It is the CWB's policy to manage these assets and liabilities in order to minimize net exposure to foreign currency fluctuations. Exchange adjustments arising from conversion of amounts due from foreign customers and borrowings are included in interest earnings.

Medium term notes issued by the CWB in currencies other than the Canadian or United States dollar are hedged by currency swap agreements and are translated into Canadian or United States dollars at the rates provided therein.

(e) Hedging of anticipated future transactions

The CWB has entered into wheat future and option contracts to price a portion of anticipated sales. The CWB has also entered into foreign exchange forward and option contracts in order to manage the foreign exchange risk of a portion of anticipated sales. The gains and losses on these contracts form part of the net sales price and are recognized in income as an adjustment to sales revenue in the same period as the sales being hedged.

(f) Interest and bank charges

Interest expense and bank charges incurred by the CWB in financing its activities and interest revenue earned are calculated on a full accrual basis. Interest expense and revenue are netted which is consistent with the requirement under the *Canadian Wheat Board Act* that such amounts be treated as charges or recoveries of operating costs. Net interest earnings includes interest earnings and expenses related to accounts receivable, bank charges, transaction and program fees on borrowing facilities, and interest earned on each pool account during the pool period and until final distribution to producers.

(g) Administrative and general expenses

Administrative and general expenses, except for that portion of such expenses attributable to distributing final payments to producers, are allocated to the various pool accounts operations to which the services relate on the basis of the relative tonnage. Expenses attributable to final payments are allocated on the basis of the number of producers receiving payments from the various pool accounts.

(h) Post-employment benefits

Benefits provided to employees upon retirement or termination are recognized in the accounts as they are earned by the employees. The unaccrued balance as at July 31, 1993 was $7,980,330, which is being amortized on a straight line basis over ten years commencing with the 1993-94 crop year. The unaccrued balance at July 31, 1996 is $5,586,231 (1995—$6,384,264).

THE CANADIAN WHEAT BOARD—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

3. Accounts receivable from credit sales

The status of accounts receivable from credit sales is as follows:

	1996	1995
	$	$
Due from foreign customers		
Current	410,285,821	532,907,577
Overdue	542,894,695	514,653,464
Subject to a Paris Club rescheduling	137,842,737	193,865,329
Rescheduled	5,430,839,079	5,429,260,525
	6,521,862,332	6,670,686,895
Due from Government of Canada	131,415,467	60,869,060
	6,653,277,799	6,731,555,955

Amounts that are current include balances receivable of $80,376,397 (1995—$16,803,428) arising from credit sales made outside of the Government of Canada guaranteed Credit Grain Sales Program.

The accounts receivable from credit sales mature as follows:

	1996	1995
	$	$
Within 12 months	865,235,034	579,049,858
Due in		
1997-98	237,822,995	432,509,341
1998-99	338,310,972	236,086,095
1999-2000	342,260,933	335,784,925
2000-01	296,221,345	339,862,408
2001 and after	4,573,426,520	4,808,263,328
	6,653,277,799	6,731,555,955

Amounts due from foreign customers

These accounts receivable arise from sales of grain to Algeria, Brazil, Egypt, Ethiopia, Haiti, Iran, Iraq, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. The terms call for payment in full within 36 months or less from time of shipment, except for Algeria, Brazil, Egypt, Ethiopia, Haiti, Jamaica, Peru, Poland, Russia and Zambia where the CWB, together with the Government of Canada, have agreed to reschedule certain receivables beyond their original maturity dates. All the reschedulings are arranged by the Paris Club, a forum through which the governments of debtor and creditor countries establish mutually agreed terms for the rescheduling and/or reduction of debts owed to the creditor governments and their agencies. Terms of such reschedulings vary calling for payment of interest and the rescheduled debt for periods ranging from 5 to 25 years.

Of the $6,521,862,332 (1995—$6,670,686,895) principal and accrued interest due from foreign customers, $4,597,347,569 (1995—$4,609,470,972) represents the Canadian equivalent of $3,343,768,688 (1995—$3,380,616,774) repayable in United States funds.

Due from the Government of Canada

In addition to debt relief by means of extending the payment terms, the Government of Canada has in certain cases agreed to provide various levels of debt reduction, through the Paris Club, to customer countries who have rescheduled amounts owing to the CWB. Under the debt reduction arrangements, payment of amounts owing to the CWB is divided on an agreed basis between the debtor country and the Government of Canada. The amount of $131,415,467 reflects the amount due from the Government of Canada as at July 31, 1996 under these debt reduction agreements.

Of the $131,415,467 (1995—$60,869,060) principal and accrued interest due from the Government of Canada, $39,619,072 (1995—$29,555,962) represents the Canadian equivalent of $28,815,966 (1995—$21,676,540) repayable in United States funds.

4. Stocks of grain

Stocks of grain at July 31 are reported at the value ultimately received as sales proceeds as follows:

	1996	1995
	$	$
Wheat	840,641,828	678,661,192
Durum	452,585,664	379,442,414
Barley	70,071,525	6,423,461
Designated barley	69,311,513	32,457,898
	1,432,610,530	1,096,984,965

5. Deferred and prepaid expenses

Deferred and prepaid expenses of $51,440,276 (1995—$28,398,643) includes net results of commodity hedging activities applicable to subsequent pool accounts of $21,258,841, prepaid costs of moving inventory to eastern export positions of $20,983,031, purchase options on leased hopper cars of $5,137,335, deposits on commodity margin accounts of $1,871,049, and other deferred and prepaid expenses of $2,190,020.

THE CANADIAN WHEAT BOARD—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

6. Fixed assets

	Cost	Accumulated depreciation	1996 Net book value	1995 Net book value
	$	$	$	$
Building	4,572,956	3,668,063	904,893	1,005,280
Building and office alterations	1,107,314	667,093	440,221	141,166
Office furniture and equipment	4,378,011	2,487,674	1,890,337	1,957,935
Computer equipment	7,393,705	5,917,502	1,476,203	1,501,456
Automobiles	690,401	296,527	393,874	441,849
Hopper cars	86,797,564	47,740,165	39,057,399	42,256,920
	104,939,951	60,777,024	44,162,927	47,304,606

Two thousands hopper cars were purchased by the CWB in 1979-80 having an original cost of $90,555,623. Of these 2,000 cars, 83 cars have been wrecked and dismantled leaving 1,917 still in the fleet. The CWB is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

7. Borrowings

Details of these borrowings are as follows:

	1996	1995
	$	$
Short-term debt instruments and loans	5,923,783,101	5,920,311,779
Medium-term debt instruments	535,514,848	571,979,620
	6,459,297,949	6,492,291,399

These borrowings fund the following:

	1996	1995
	$	$
Funds on deposit from ordinary operations	(193,979,850)	(234,562,561)
Borrowings to finance credits sales	6,653,277,799	6,726,853,960
	6,459,297,949	6,492,291,399

Of the total short-term borrowings $4,069,850,631 (1995—$4,052,144,116) represents the Canadian equivalent of $2,960,106,648 (1995—$2,971,869,539) repayable in United States funds. Of the medium-term borrowings, $535,514,848 (1995—$571,979,620) represents the Canadian equivalent of $389,493,671 (1995—$419,493,671) repayable in United States funds.

The CWB's borrowings are undertaken with the approval of the Minister of Finance. Such borrowings constitute direct obligations of the CWB and as such constitute borrowings undertaken on behalf of Her Majesty in Right of Canada.

8. Accrued expenses and accounts payable

	1996	1995
	$	$
Deferred sales revenue	33,577,806	10,654,576
Accounts payable	35,834,294	46,216,861
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	38,544,905	32,755,166
	107,957,005	89,626,603

9. Liability to agents of the CWB

	1996	1995
	$	$
For grain purchased from producers	957,709,932	494,333,230
For deferred cash tickets	202,006,228	157,373,331
	1,159,716,160	651,706,561

Grain purchased from producers

Grain companies, acting in the capacity of agents of the CWB, accept deliveries from producers at country elevators and pay the producers on behalf of the CWB based on the CWB's initial price in effect. Settlement is not made by the CWB for these purchases until delivery to the CWB is completed by its agents at terminal or mill position. Liability to agents for grain purchased from producers represents the amount payable by the CWB to its agents for 3 951 298 (1995—2 738 135) tonnes of grain on hand at country elevator points and in transit at July 31 for which delivery to and settlement by the CWB is to be completed subsequent to the year end date.

Deferred cash tickets

Grain companies, acting in the capacity of agents of the CWB, deposit with the CWB in trust an amount equal to the deferred cash tickets issued for CWB grain. These funds are returned to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

THE CANADIAN WHEAT BOARD—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

10. Liability to producers

	1996	1995
	$	$
Outstanding producer cheques at July 31		
Wheat	153,398,037	152,012,574
Durum	64,589,683	110,818,965
Oats	3,021	3,021
Barley	8,899,593	176,643
Designated barley	19,067,706	14,001,596
	245,958,040	277,012,799
Undistributed earnings to producers		
Wheat	157,448,989	276,273,114
Durum	97,308,668	210,835,408
Barley	10,821,578	2,007,232
Designated barley	33,696,550	35,049,068
	299,275,785	524,164,822
	545,233,825	801,177,621

11. Provision for final payment expenses

The amount of $5,805,860 (1995—$6,053,405) represents the balance of the CWB's reserve for final payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the special account by Order-in-Council.

12. Special account—Net balance of undistributed payment accounts

In accordance with the provision of Section 39 of the *Canadian Wheat Board Act,* the Governor in Council may authorize the CWB to transfer to a special account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor in Council, upon the recommendations of the CWB, may deem to be for the benefit of producers.

13. Lease commitments

The CWB, as an agent of Her Majesty in Right of Canada, is the lessor of 2,000 covered hopper cars for the Government of Canada. All lease costs are recoverable from the government and are not a charge to the operations of the CWB. Total payments associated with leases in the year ended July 31, 1996, amounting to $20,248,521 (1995—$19,985,536) have been recovered by the CWB. Lease terms are for 20 and 25 years.

14. Off balance sheet financial instruments

The CWB enters into hedging transactions for the sole purpose of matching its assets and liabilities and hedging market risk exposure. These transactions are designed to reduce the CWB's exposure to mismatches in revenue and expenses resulting from fluctuations in interest rates and foreign exchange. These transactions include interest rate swap contracts, cross-currency interest rate swap contracts and currency swap contracts.

The CWB also transacts foreign exchange contracts and foreign exchange options with financial institutions with the objective of hedging currency exposure arising primarily from grain sales. By hedging the CWB's currency exposure, risk to adverse currency movements is eliminated.

The CWB manages its exposure to the risk of non-performance by the counterparty by contracting only with financial institutions having a very high credit rating qualified to the CWB's standards, which are fully in line with those issued by the Department of Finance to Crown corporations.

As at July 31, the total notional amount of these off balance sheet financial instruments, all either maturing or rate re-setting within one year, is as follows:

	1996	1995
	Notional amounts US $	Notional amounts US $
Interest rate contracts		
Single-currency interest rate swaps	506,000,000	349,500,000
Cross-currency interest rate swaps	89,493,671	89,493,671
Currency swaps	683,505,923	
	1,278,999,594	438,993,671
Foreign exchange contracts		
Foreign exchange forward contracts	644,429,910	752,855,783
Foreign exchange option contracts	20,000,000	
	664,429,910	752,855,783
	1,943,429,504	1,191,849,454

There were no Canadian dollar denominated interest rate swaps or currency swaps outstanding at July 31, 1996.

THE CANADIAN WHEAT BOARD—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

15. Sales

Net sales are calculated as follows:

(a) Wheat pool account

	1996		1995	
	Tonnes	Amount	Tonnes	Amount
		$		$
Completed sales to July 31	12,998,103	3,375,684,928	13,735,452	2,602,746,107
Sales completed subsequent to July 31	3,157,890	840,641,828	3,082,926	678,661,192
Weight losses in transit and in drying	716		2,177	
	16,156,709	4,216,326,756	16,820,555	3,281,407,299
Deduct:				
Grain acquired from other than producers	78,901	17,486,232	98,009	13,242,094
Sales used to value prior pool account	1,725,355	386,737,816	2,081,888	348,393,536
Net sales of Wheat	14,352,453	3,812,102,708	14,640,658	2,919,771,669
The disposition of wheat stocks in tonnes is segregated as follows:				
Domestic sales	1,674,677		1,683,407	
Export sales	11,323,426		13,409,616	
Sales to subsequent pool accounts	3,157,890		1,725,355	
Weight losses in transit and in drying	716		2,177	
	16,156,709		16,820,555	

(b) Durum pool account

	1996		1995	
	Tonnes	Amount	Tonnes	Amount
		$		$
Completed sales to July 31	2,936,915	905,424,146	3,628,943	899,335,973
Sales completed subsequent to July 31	1,836,819	452,585,664	1,340,190	379,442,414
Weight losses in transit and in drying	1,736		1,616	
	4,775,470	1,358,009,810	4,970,749	1,278,778,387
Deduct:				
Grain acquired from other than producers	27,117	6,294,013	19,274	3,820,410
Sales used to value prior pool account	774,969	221,351,427	883,359	181,662,465
Net sales of Durum	3,973,384	1,130,364,370	4,068,116	1,093,295,512
The disposition of durum stocks in tonnes is segregated as follows:				
Domestic sales	222,750		182,203	
Export sales	3,571,953		4,011,961	
Sales to subsequent pool account	979,031		774,969	
Weight losses in transit and in drying	1,736		1,616	
	4,775,470		4,970,749	

THE CANADIAN WHEAT BOARD—*Concluded*

NOTES TO FINANCIAL STATEMENTS—*Concluded*

(c) Barley pool account

	1996		1995	
	Tonnes	Amount	Tonnes	Amount
		$		$
Completed sales to July 31	931,288	202,268,278	1,275,723	145,220,286
Sales completed subsequent to July 31	379,501	70,071,525	59,774	6,423,461
Weight losses in transit and in drying	51		1,508	
	1,310,840	272,339,803	1,337,005	151,643,747
Deduct:				
Grain acquired fron other than producers	15,250	2,615,715	1,050	110,101
Sales used to value prior pool account	27,809	3,104,099	276,300	31,220,962
Net sales of Barley	1,267,781	266,619,989	1,059,655	120,312,684
The disposition of barley stocks in tonnes is segregated as follows:				
Domestic sales	16,825		26,599	
Export sales	914,463		1,281,089	
Sales to subsequent pool account	379,501		27,809	
Weight losses in transit and in drying	51		1,508	
	1,310,840		1,337,005	

(d) Designated barley pool account

	1996		1995	
	Tonnes	Amount	Tonnes	Amount
		$		$
Completed sales to July 31	2,264,045	550,992,796	2,104,155	359,685,342
Sales completed subsequent to July 31	286,555	69,311,513	156,086	32,457,898
Weight losses in transit and in drying				
	2,550,600	620,304,309	2,260,241	392,143,240
Deduct:				
Grain acquired from other than producers	1,095	275,012		
Net sales of Designated Barley	2,549,505	620,029,297	2,260,241	392,143,240
The disposition of designated barley stocks in tonnes is segregated as follows:				
Domestic sales	337,587		360,700	
Export sales	2,194,738		1,899,541	
Sales to subsequent pool account	18,275			
	2,550,600		2,260,241	

16. Restatement of prior year's balances

Certain of the prior year's balances have been restated to conform with the current year's presentation.

CAPE BRETON DEVELOPMENT CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF NATURAL RESOURCES

I have audited the balance sheet of Cape Breton Development Corporation as at March 31, 1997 and the statements of operations, equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Cape Breton Development Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 16, 1997

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
	$	$
Current assets		
Cash and term deposits (Note 4)	9,611	8,973
Accounts receivable, net (Note 5)	20,346	25,044
Inventories		
Coal	11,231	11,732
Operating materials and supplies	8,364	9,484
	49,552	55,233
Capital assets (Note 6)	140,146	158,362
Other asset		
Deferred pension costs (Note 7)	62,862	45,907
	252,560	259,502

LIABILITIES	1997	1996
	$	$
Current liabilities		
Accounts payable and accrued liabilities	32,342	30,794
Large corporations tax payable	3,846	3,536
Due to Government of Canada		
Working capital advances		15,000
Current portion of long-term provisions	11,895	20,222
	48,083	69,552
Provision for early retirements and restructuring (Note 8)	105,548	104,087
Provision for environmental projects (Note 9)	20,559	20,852
	174,190	194,491
EQUITY		
Repayable appropriation from future profits (Note 10)	43,500	
Equity of Canada	34,870	65,011
	78,370	65,011
	252,560	259,502

Going concern (Note 2).
Commitments and contingencies (Note 11).

Approved on behalf of the Board:

JOSEPH P. SHANNON
Director

JOSEPH M. MacMULLEN
Director

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
	$	$
Revenue	167,299	188,410
Expenses		
Cost of product sold	126,225	134,114
External freight	4,156	5,171
General and administrative	7,525	8,783
Amortization	25,925	34,664
	163,831	182,732
Profit from current operations	3,468	5,678
Deduct		
Pensions and early retirement	29,115	29,761
Provision for environmental projects		15,851
Provision for corporate restructuring	4,184	84,492
Write-down of capital assets		82,659
	33,299	212,763
Loss before taxes	(29,831)	(207,085)
Large corporations tax	310	310
Loss for the year	(30,141)	(207,395)

STATEMENT OF EQUITY
YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
	$	$
Balance, beginning of the year	65,011	272,406
Add (deduct)		
Loss for the year	(30,141)	(207,395)
Repayable appropriation from future profits (Note 10)	43,500	
Balance, end of the year	78,370	65,011

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Loss for the year	(30,141)	(207,395)
Items not affecting cash		
Amortization of capital assets	25,925	34,664
Gain on disposal of assets	(806)	
Capital asset write-downs		82,659
Provision for environmental projects		15,851
Provision for early retirement and restructuring	4,184	85,213
Changes in non-cash operating working capital items	8,177	11
	7,339	11,003
Payments for early retirements	(9,706)	(8,497)
Payments for environmental projects	(1,637)	(208)
Deferred pension costs	(16,955)	(7,623)
	(20,959)	(5,325)
Financing		
Increase (decrease) in working capital advances	(15,000)	10,000
Repayable appropriation from future profits	43,500	
	28,500	10,000
Investing		
Purchase of capital assets	(8,147)	(5,811)
Proceeds from sale of capital assets	1,244	
	(6,903)	(5,811)
Net inflow (outflow) of cash	638	(1,136)
Cash and term deposits, beginning of year	8,973	10,109
Cash and term deposits, end of year	9,611	8,973

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

1. Authority and objectives

The Corporation was established in 1967 for the purpose of reorganizing and rehabilitating the coal industry on Cape Breton Island, pursuant to the *Cape Breton Development Corporation Act*. Its corporate mission is "to become a profitable coal mining company".

The Corporation, an agent of Her Majesty, is listed as a Schedule III, Part I, corporation for purposes of the *Financial Administration Act*. The Corporation is carrying out restructuring activities as approved in the 1996-97 to 2000-01 Corporate Plan and revised in the 1997-98 to 2001-02 Corporate Plan approved by the Governor in Council. The Government of Canada is providing funding support for these activities (see also Note 10). As a result, the Corporation is economically dependent on the Government of Canada for funding it receives through this arrangement.

Advances from the Government of Canada are also provided for working capital purposes to a limit of $50,000 on such terms as may be agreed upon, as provided for in the *Cape Breton Development Corporation Act*.

The Corporation is subject to provisions of the *Income Tax Act*.

2. Going concern

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a "going concern", which assume that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Corporation's mission is to become a profitable coal mining company, although it has received annual financial support from the Government of Canada throughout most of its existence. In April 1996, the Governor in Council approved a corporate restructuring as part of the Corporation's 1996-97 to 2000-01 Corporate Plan. This plan calls for the Government of Canada to provide the Corporation with repayable appropriations during the first 3 years of the planning period. In 1996-97, the Corporation received $43,500 based on implementation of its restructuring activities. Additional funding requirements are projected for 1997-98 and 1998-99. The approved 1997-98 to 2001-02 Corporate Plan updates the prior year's plan and projects future profits and cash surpluses. The Plan indicates that, beginning in 1999-00, the funding will be repaid to the Government of Canada from these surpluses.

The Corporation has experienced significant geological and mining problems with both the Prince and Phalen collieries including roof collapses, water inflows, sandstone conditions, and uncertainty regarding the economic recovery of the coal reserves. Management is continuing to implement action to address these issues that affect the future operations of the Corporation. As a result of problems that have been encountered, overall production and development were lower than planned for 1996-97. The ability of the Corporation to meet planned development drivage rates and targets while simultaneously overcoming production problems will affect its ability to meet the objectives outlined in its approved corporate plan. Management believes that the results of the fourth quarter of 1996-97 and further planned actions indicate that the Corporation will overcome these problems which affect future viability.

The ability of the Corporation to continue as a going-concern is dependent on its ability to become profitable in the period outlined in its approved corporate plan, and on the Government of Canada's continuing financial support to meet certain obligations and commitments as they come due. These financial statements do not include any adjustments to the amounts recorded as assets, liabilities and equity which would be required if the Corporation was not able to continue as a going concern.

3. Accounting policies

(a) Repayable appropriation from future profits

Parliamentary appropriations from the Government of Canada that are repayable from future profits are reflected in the financial statements as Equity.

(b) Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. Despite the use of the Corporation's best estimates, it is reasonably possible that the amounts for the following balance sheet items and related expenses could change materially in the near term: the net book value of capital assets (see also Note 6), provision for early retirements and restructuring (see also Note 8), and provision for environmental projects (see also Note 9).

(c) Fair values

The fair values of financial instruments are determined as follows:

- Current portion of provision for early retirements and restructuring - using cash flows of estimated future payments without discounting (see also Note 8).
- Provision for early retirements and restructuring - using discounted cash flows of estimated future payments for early retirements, based on current interest rates. The component for standby maintenance is based on estimated future net cash flows, without discounting (see also Note 8).
- Provision for environmental projects - using estimated future payments, without discounting (see also Note 9).
- Repayable appropriation from future profits - based on principal amount received, without discounting (see also Note 10).
- Workers' compensation benefits - the liability for future workers' compensation costs related to current and former employees is not recorded in the financial statements as these costs are recorded on a pay-as-you-go basis (see also Note 3 (h) and Note 11 (g)).

(d) Inventories

Coal - is valued at the lower of full cost and net realizable value, based on net future contract price.

Operating materials and supplies - are valued at the lower of cost, determined on a weighted average basis, and net realizable value.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1997—*Continued*

(e) Capital assets

Capital assets are at the lower of cost less accumulated amortization and the estimated net recoverable amount. The Corporation has provided amortization on its capital assets based on their estimated useful lives, using the straight-line method of calculation, as follows:

Prince Colliery	2-20 years
Phalen Colliery	2-20 years
Devco Railway	4-20 years
Coal Preparation Plant	15 years
Other assets	4-20 years

All costs related to the exploration and development of the Donkin-Morien Development project have been expensed in prior years because the future economic benefits of the project were uncertain.

(f) Foreign currency translation

Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at the rate of exchange prevailing on the transaction date. The resulting foreign currency gains and losses are included in the results of operations.

(g) Pension costs

Current service costs are actuarially determined and are included in the cost of product sold. All other pension costs are included in pensions and early retirements. These costs include the initial unfunded liability and adjustments arising from experience gains and losses amortized over the estimated average remaining service life of employees.

(h) Workers' compensation benefits

Certain employees, retired or unable to perform their duties as a result of work-related injuries, receive benefits specified and administered by the Workers' Compensation Board of Nova Scotia. The Corporation recognizes the benefit payouts as an expense in the year it pays the Workers' Compensation Board of Nova Scotia and therefore no liability has been recorded in the financial statements for anticipated future costs (see also Note 11 (g)).

(i) Development costs

Development costs incurred prior to commercial production are capitalized and subsequently charged to operations on the straight-line basis of amortization over the estimated useful life of the related asset. Any proceeds from the sale of coal produced during the development of mining properties prior to commercial production are used to offset the capitalized development costs. After a mine property has been brought into commercial production, costs of development on that property are expensed as incurred except for those of an exploratory nature that are deferred and amortized over the life of the asset.

(j) Provision for environmental projects

Future decommissioning and site restoration:

Future removal and decommissioning costs and future site restoration and reclamation costs of operating sites are recognized when they can be reasonably estimated. Costs are capitalized only if future economic benefits are anticipated.

Ongoing environmental costs:

Costs for ongoing environmental activities related to mine drainage and water treatment, in addition to the general protection of the environment are recognized when they can be reasonably estimated. Costs are capitalized only if future economic benefits are anticipated.

(k) Provision for early retirement and restructuring

The Corporation recognizes liabilities for early retirement incentives, severance, education, and relocation allowances related to workforce reductions when the decision has been approved by the Government of Canada and an estimate of the anticipated future costs can be reasonably calculated. In addition, the Corporation recognizes estimated future costs associated with standby maintenance of non-operating assets when no future economic benefit is expected.

Management recognizes changes in this liability from the original estimate, based on the results of actual experience.

4. Term deposits

The Corporation has credit commercial paper issued by a Canadian chartered bank totalling $9,000 (1996—$2,000). The effective rate of interest on these term deposits is 3.1% with maturity in April 1997. The fair value of these term deposits approximates their carrying value.

5. Accounts receivable, net

Accounts receivable, net are comprised of the following:

	1997	1996
	$	$
Nova Scotia Power Inc. (NSPI), net	19,093	21,300
Foreign sales customer, net		2,500
Miscellaneous receivables, net	1,253	1,244
	20,346	25,044

The Corporation sells substantially all of its coal production to NSPI using normal commercial terms under the provision of a long-term agreement (see also Note 13).

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1997—*Continued*

6. Capital assets

	1997			1996		
	Adjusted cost base	Accumulated amortization	Net book value	Adjusted cost base	Accumulated amortization	Net book value
	$	$	$	$	$	$
Prince Colliery	155,413	132,546	22,867	152,397	127,057	25,340
Phalen Colliery	278,221	185,094	93,127	274,403	166,672	107,731
Donkin-Morien Development Project	80,679	80,679		80,679	80,679	
Coal Preparation Plant	110,972	110,972		110,972	110,972	
Devco Railway	97,099	78,210	18,889	98,918	78,521	20,397
Other assets	66,952	61,689	5,263	65,907	61,013	4,894
	789,336	649,190	140,146	783,276	624,914	158,362

The valuation of capital assets is dependent upon the Corporation's overcoming the problems identified in Note 2.

7. Pensions

The Corporation maintains defined benefit pension plans on behalf of employees of the Corporation. There are two major plans, consisting of a contributory and non-contributory plan. Benefits generally are based on employees' length of service and rate of pay. The present value of pension plan benefits and current pension expense is actuarially determined for both plans based on assumptions provided by management.

The Corporation's pension costs and obligations for the non-contributory pension plan as at March 31 consist of:

	1997	1996
	$	$
Pension fund assets (market value)	255,064	216,913
Pension obligations (actuarial value)	254,648	252,992
Surplus (unfunded liability)	416	(36,079)
Pension contributions	27,000	21,587
Pension expense	10,045	13,964

The difference between pension contributions and pension expense is shown on the balance sheet as an adjustment to deferred pension costs.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1997—*Continued*

The Corporation's pension costs and obligations for the contributory plan as at March 31 consist of:

	1997	1996
	$	$
Pension fund assets (market value)	56,051	48,859
Pension obligations (actuarial value)	42,609	41,533
Surplus	13,442	7,326
Pension expense	826	753

The required payments by the Corporation and expenses approximated current service costs and therefore no adjustment to deferred pension costs was required relative to this plan.

The valuation of both pension plans is based on management's assumption that the human resources strategy related to restructuring approved in 1996 will not significantly affect the average age and retirement profile of the workforce. Management believes there will be no material effect on plan participation levels from workforce reductions.

8. Provision for early retirement and restructuring

This provision consists of estimates of the cost of early retirement and restructuring initiatives when approval of such decisions is obtained. Any changes in the estimate are reflected when known. As part of the corporate restructuring initiatives begun in 1996-97, the Corporation is committed to reducing its workforce by a total of 658 employees by March 31, 2001. At March 31, 1997 the Corporation has reduced its workforce by a total of 197 under these initiatives.

The Corporation made significant assumptions in preparing estimates of this provision, including: interest rates for discount factors and price indexation for the non-current portion of the liability; planned date of employee reductions; and the number of reductions. The estimates of liabilities, based on the above, could be significantly different if the key assumptions used by management for major determinants of the estimate vary from those planned. Standby maintenance included in this provision is based upon management's intention for the use of capital assets as outlined in its approved Corporate Plan. The estimate of this liability could be significantly different if the Corporation varies its intended use of capital assets and its decision to keep certain non-operating assets available for use. Management recognizes changes in this liability from the original estimate based on updated assumptions and actual experience. The statement of operations includes a charge of $4,184 for changes in management's estimate. Management's estimate for the liabilities associated with early retirement and restructuring at March 31, including current and non-current amounts is:

	1997	1996
	$	$
Human resources strategy (1996)	55,555	55,000
Lingan colliery closure	33,381	38,050
Other early retirement incentives	15,248	14,992
Standby maintenance	10,836	12,500
	115,020	120,542
Less: current portion	9,472	16,455
Non-current portion	105,548	104,087

9. Provision for environmental projects

The Corporation's estimate for environmental projects includes anticipated future costs related to: decommissioning and site restoration and reclamation; and other environmental activities related to mine drainage water treatment and general environmental protection. These estimates are based on meeting the requirements of applicable environmental laws and regulations and for the general protection of the environment in accordance with the Corporation's environmental policy. The estimate of the liability for these costs will be revised as the Corporation develops and implements closure and post closure plans in future years. Those plans will be developed in relation to the Corporation's environmental policy and applicable legislation at that time. The estimate of liabilities, based on the above, could be significantly different if future plans change as a result of revisions in management's assumptions or legislation.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1997—*Continued*

Management's estimate of the liabilities associated with the provision for environmental projects at March 31, including current and non-current amounts is:

	1997	1996
	$	$
Mine drainage and water treatment	5,080	5,272
Removal, decommissioning and future site restoration and reclamation	9,402	9,447
General environmental protection	8,500	9,900
	22,982	24,619
Less: current portion	2,423	3,767
Non-current portion	20,559	20,852

10. Repayable appropriation from future profits

The Government of Canada has provided the Corporation with $43,500 as part of an overall funding arrangement approved by the Governor in Council in April 1996. The Corporation has recognized funds received as a component of Equity. Amounts provided to the Corporation and associated financing charges will be repaid from future profits as a dividend payment. Final repayment conditions have not yet been negotiated with the Government of Canada.

11. Commitments and contingencies

(a) The Corporation has commitments to complete contracted capital projects under construction of approximately $6,200 (1996—$2,200) at March 31, 1997.

(b) The Corporation has an operating lease for office space in the General Mining Building where it maintains its administrative offices. The lease is for a twenty-year period ending in 2004. The annual lease payments fluctuate with changes in the lessor's mortgage interest rates. Current minimum annual lease payments are $1,203, at an interest rate of 8% (1996—$1,203 at 8%).

(c) The Corporation has outstanding export sales contracts totalling $5,673 US (1996—$10,700 US) at March 31, 1997.

(d) In the ordinary course of business, various claims and lawsuits have been brought against the Corporation. It is the opinion of management that the settlement of these actions will not result in any material liabilities beyond any amounts already provided. The Corporation intends to oppose these matters in their entirety.

(e) The Corporation self insures against the potential loss of underground assets and for a portion of its liability insurance.

(f) The Corporation believes its operations are in compliance with all applicable environmental laws and regulations, in all material respects. The Corporation recognizes a provision based on management's estimate of these costs where such costs can be reasonably estimated. Such estimates are subject to adjustment based on changes in laws and regulations and as new information becomes available.

(g) The Corporation is subject to the *Government Employees' Compensation Act* requiring reimbursement to Human Resources Development Canada for payments made on the Corporation's behalf to the Workers' Compensation Board of Nova Scotia. The Statement of Operations includes a charge of $19,832 (1996—$16,600), consisting of current payments of workers' compensation claims of $4,704 (1996—$4,200) and periodic disability payments of $15,128 (1996—$12,400). These costs are being recognized on a pay-as-you-go basis.

A February 1997 actuarial study estimated the actuarial value for workers' compensation benefit liabilities for former or current employees of the Corporation as at December 31, 1995 at $138,000. This represents the present value of all future benefits estimated to be paid as a result of accidents which occurred on or before December 31, 1995. The actuarial liability does not include amounts for future occupational disease awards or administration costs, which may be significant. The estimate reflects anticipated effects of the *Nova Scotia Workers' Compensation Act* (1994) which became effective on February 1, 1996. The actuarial liability could be materially different if assumptions on which the valuation is based vary significantly in future years.

12. Income taxes

During 1990, the Corporation's income tax returns for the years 1983-89 were reassessed by Revenue Canada Taxation. Revenue Canada has taken the position that appropriations to the Corporation in respect of operating losses are taxable as income from a business or property and that appropriations in respect of capital acquisitions reduce the capital cost of the Corporation's property. The Corporation has also received assessments from Revenue Canada for the years 1990-96 using the same interpretation. Management opposes this view and has been exercising the Corporation's right to formally challenge Revenue Canada's interpretation. No amounts have been recognized in the financial statements for any costs that could be associated with Revenue Canada Taxation successfully applying its interpretation. The income tax liability would be significant if Revenue Canada Taxation is successful in applying its interpretation.

The Corporation has loss carry-forwards for income tax purposes which have not been recognized as such losses have no realizable value to the Corporation.

13. Long-term agreement

The Corporation has an agreement with Nova Scotia Power Inc. (NSPI) to supply coal, as specified in that agreement, until 2010. The parties renegotiate quantities, tolerance on qualities and prices every five years. The current terms related to those items expire on December 31, 1999.

The parties' performance of this agreement in accordance with its terms is necessary to the future operations of the Cape Breton Development Corporation and the fulfilment of its Corporate Plan.

CAPE BRETON DEVELOPMENT CORPORATION—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1997—*Concluded*

14. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. In addition to these transactions, the Government of Canada has advanced appropriations repayable from future profits to the Corporation (see also Note 10) provides working capital advances, at current interest rates, repayable within one year, based on cash flow requirements.

The Chairman of the Board of Directors of the Corporation has ownership interests and/or serves on the Board of Directors of companies which conduct business with the Corporation. The transactions between these parties relate mainly to the transportation of coal. These transactions are with normal course of business and are subject to necessary approval and disclosures which exclude the participation of the Chairman of the Board of Directors of the Corporation.

15. Subsequent event

The Corporation signed a letter of intent in April 1997 to enter into an agreement for the purposes of selling the land and transferring the coal leases related to the Donkin-Morien Development Project. Such agreement would require further approval. All costs related to the exploration and development of the Donkin-Morien Development project have been fully expensed in prior years because the future economic benefits of the project were uncertain.

16. Comparative figures

Certain of the comparative figures in these financial statements have been restated to conform with the current presentation.

DEFENCE CONSTRUCTION (1951) LIMITED

MANAGEMENT REPORT

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. Other financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act,* the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. Management also ensures that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing the report thereon.

Ross Nicholls
President and Chief Executive Officer

Trevor Heavens
Vice-President
Finance and Administration
and Secretary-Treasurer

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS
AND GOVERNMENT SERVICES

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 1997 and the statements of operations and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act,* the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 16, 1997

DEFENCE CONSTRUCTION (1951) LIMITED—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997

ASSETS	1997	1996
	$	$
Current		
Cash	1,164,377	158,446
Accounts receivable	376,161	766,303
Due from Department of National Defence (Note 3)	689,818	892,130
Prepaids and advances	33,228	104,002
	2,263,584	1,920,881
Capital assets (Note 4)	1,783,080	1,705,994
	4,046,664	3,626,875

LIABILITIES	1997	1996
	$	$
Current		
Accounts payable and accrued liabilities	1,279,730	1,920,849
Current portion—Provision for employees benefits (Note 5)	456,372	483,986
	1,736,102	2,404,835
Provision for employee benefits (Notes 5 and 7)	1,860,441	1,490,534
	3,596,543	3,895,369
CAPITAL STOCK AND SURPLUS (DEFICIT)		
Capital stock		
Authorized—1,000 common shares of no par value	32	32
Issued—32 common shares		
Surplus (deficit) (Note 7)	450,089	(268,526)
	450,089	(268,526)
	4,046,632	3,626,843

Contingencies (Note 11)

See accompanying notes to financial statements.

Approved by the Board:

JOHN D. McLURE
Director

JOHN L. ADAMS
Director

DEFENCE CONSTRUCTION (1951) LIMITED—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Expenses		
Salaries and employee benefits	12,590,049	12,955,298
Travel and relocation	995,916	1,196,205
Amortization	816,162	678,421
Professional services	797,175	905,347
Telephone	717,541	647,941
Office supplies and maintenance	671,521	560,747
Office accommodation	396,568	404,261
Training and professional development	248,346	210,019
Rental of equipment	159,655	175,208
Postage, express, and freight	156,551	129,269
Advertising	132,834	52,565
Other	59,178	52,492
	17,741,496	17,967,773
Cost recoveries		
Department of National Defence	17,584,501	16,910,523
Third parties	875,610	953,632
	18,460,111	17,864,155
Cost recoveries over expenses (expenses over cost recoveries) (Note 6)	718,615	(103,618)
Deficit at beginning of the year	(268,526)	(164,908)
Surplus (deficit) at end of the year	450,089	(268,526)

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Operating activities		
Cost recoveries over expenses (expenses over cost recoveries) (Note 6)	718,615	(103,618)
Items not requiring cash		
Long-term provision for employee benefits	490,788	312,863
Amortization	816,162	678,421
Loss on disposal of capital assets	16,178	
Net increase (decrease) in non-cash working capital balances related to operations*	(5,505)	1,902
	1,317,623	993,186
Employee termination benefits paid	(120,881)	(634,414)
Cash provided by operating activities	1,196,742	358,772
Investing activities		
Acquisition of capital assets	(909,426)	(247,800)
Increase in cash during the year	1,005,931	7,354
Cash at beginning of the year	158,446	151,092
Cash at end of the year	1,164,377	158,446

* Consisting of changes in accounts receivable, due from Department of National Defence, prepaids and advances, accounts payable and accrued liabilities, and current portion of provision for employee benefits.

See accompanying notes to financial statements.

DEFENCE CONSTRUCTION (1951) LIMITED—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997

1. Authority and objective

Defence Construction (1951) Limited was Incorporated under the *Canada Corporations Act* in 1951 and was continued under the *Canada Business Corporations Act,* pursuant to the authority of the *Defence Production Act.* The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act.* The Corporation is not subject to income taxes.

The objective of the Corporation is principally to contract for and manage the construction, maintenance and repairs services, architectural and engineering services as required for the construction program of the Department of National Defence, pursuant to the Memorandum of Understanding with the latter.

Pursuant to the Memorandum of Understanding, the Department of National Defence provides the Corporation with funding for its net cost of operations and also funds the purchase of capital assets required for its day-to-day operations. Effective April 1, 1997 the basis of funding will change. All funding requirements will be generated from fees charged for specific services provided.

2. Significant accounting policies

Financial statement presentation

These financial statements are prepared in accordance with generally accepted accounting principles. The financial statements reflect the administrative expenses incurred in procuring the services to the Department of National Defence and others, as described above.

Capital assets

Capital assets, comprised of equipment and computers which include hardware, software and development costs, are capitalized at cost and are amortized on a straight-line basis over five years.

Employee termination benefits

Employees are entitled to specific termination benefits calculated at salary levels in effect at the time of separation as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to an amount equal to the employees' contributions on account of current and certain past service. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Services provided without charge

The Department of National Defence provides office space free of charge for some employees of the Corporation.

3. Due from Department of National Defence

The net cost of operations is recovered through the Department of National Defence to the extent of net cash requirement. Any excess of cash advances is refunded after year end. As at March 31, 1997 the net balance due from the Department of National Defence was $689,818 (1996—$892,130).

4. Capital assets

	1997			1996
	Cost	Accumulated amortization	Net	Net
	$	$	$	$
Equipment	639,527	378,527	261,000	221,022
Computers	4,148,236	2,626,156	1,522,080	1,484,972
	4,787,763	3,004,683	1,783,080	1,705,994

5. Provision for employee benefits

	1997	1996
	$	$
Termination benefits	1,860,441	1,476,409
Life insurance		14,125
Vacation and overtime benefits	456,372	483,986
	2,316,813	1,974,520
Less: current portion	456,372	483,986
	1,860,441	1,490,534

6. Excess of cost recoveries over expenses (expenses over cost recoveries)

The excess of cost recoveries over expenses (expenses over cost recoveries) is the net balance resulting from the change in provision for employee benefits and the change in the net book value of capital assets at year end.

	1997	1996
	$	$
(Increase) decrease in provision for employee benefits	(342,293)	327,002
Increase in funding of employee benefits	1,000,000	
Increase (decrease) in net book value of capital assets	77,086	(430,620)
Loss on disposal of capital assets	(16,178)	
	718,615	(103,618)

DEFENCE CONSTRUCTION (1951) LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

7. Deficit (surplus)

The deficit (surplus) of the Corporation is comprised of the difference between the provision for employee benefits, which will be funded in future years as they are paid, and the net book value of capital assets which have been funded by the Department of National Defence.

	1997	1996
	$	$
Provision for employee benefits (Note 5)	2,316,813	1,974,520
Less: funded portion	(1,000,000)	
Net book value of capital assets (Note 4)	(1,783,080)	(1,705,994)
Loss on disposal of capital assets	16,178	
	(450,089)	268,526

8. Related party transactions

All material related party transactions are disclosed in relevant notes. The principal related party to the Corporation is the Department of National Defence. The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

9. Lease commitments

In addition to the free office space provided by the Department of National Defence, the Corporation leases extra accommodation in the performance of its operations. The future minimum annual lease payments are:

Year ending March 31	$
1998	414,783
1999	393,271
2000	241,828
2001	26,249
2002	13,124
	1,089,255

10. Financial instruments

Accounts receivable and accounts payable are incurred in the normal course of business and are primarily due on demand and non-interest bearing. The carrying amounts of each approximate fair values because of their short maturity. With the exception of amounts due from the Department of National Defence, there are no concentrations of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

11. Contingencies

Claims and letter of credit aggregating approximately $6,931,000 in respect of contractual obligations have been received by the Corporation, but are not reflected in the accounts. In the opinion of management and legal counsel, the position of the Corporation is defensible. However, the final outcome of such claims is not determinable. Any settlements resulting from the resolution of these claims will be funded by the Department of National Defence, in the year of settlement.

12. Comparative figures

Certain 1996 comparative figures have been reclassified to conform with the current year's presentation.

ENTERPRISE CAPE BRETON CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Enterprise Cape Breton Corporation and all information in this annual report have been prepared by the Corporation's management. The financial statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements, where appropriate. Where there is more than one acceptable accounting alternative, management has chosen the one that is most appropriate to the circumstances of the Corporation.

Management is responsible for the integrity and objectivity of the information in the financial statements and annual report. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized and comply with relevant authorities, assets are safeguarded, and proper records are maintained to produce timely, reliable financial statements. In addition, the Audit Committee of the Board of Directors oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The Audit Committee of the Board of Directors has periodic meetings with management and the independent auditors to discuss the financial reporting process as well as accounting and reporting issues. The financial statements have been reviewed and approved by the Board of Directors upon the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the financial statements of the Corporation in order to express his opinion thereon.

Keith G. Brown
Vice-President

Francis Mullins
Comptroller

AUDITOR'S REPORT

TO THE MINISTER FOR THE PURPOSES OF THE
ATLANTIC CANADA OPPORTUNITIES AGENCY ACT

I have audited the balance sheet of Enterprise Cape Breton Corporation as at March 31, 1997 and the statements of equity, operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Enterprise Cape Breton Corporation Act* and the by-laws of the Corporation.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 23, 1997

ENTERPRISE CAPE BRETON CORPORATION—*Continued*

BALANCE SHEET
AS AT MARCH 31, 1997

ASSETS	1997	1996
	$	$
Current		
Term deposits (Note 3)	1,795,534	1,493,715
Accounts receivable, net (Note 4)	1,457,155	1,158,602
Prepaid expenses	265,517	38,867
	3,518,206	2,691,184
Loans (Notes 5 and 6)	2,353,288	2,369,619
Investments (net of allowance of $100,000; 1996—$372,323) (Note 7)	950,000	350,000
Capital assets (Note 8)	157,620	108,972
	6,979,114	5,519,775

LIABILITIES	1997	1996
	$	$
Current		
Bank indebtedness	1,406,800	980,963
Accounts payable and accrued liabilities (Note 4)	964,134	1,156,641
Provision for environmental cleanup	95,088	220,000
Provision for employee termination benefits	47,800	55,400
	2,513,822	2,413,004
Long-term		
Provision for employee termination benefits	395,886	360,209
	2,909,708	2,773,213
EQUITY		
Equity of Canada	4,069,406	2,746,562
	6,979,114	5,519,775

Commitments (Note 10).
See accompanying notes.

Approved by the Board of Directors:

GREG MacKENZIE
Director

CHARLES T. SMITH
Director

ENTERPRISE CAPE BRETON CORPORATION—*Continued*

STATEMENT OF EQUITY
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Equity at beginning of the year	2,746,562	2,225,488
Parliamentary appropriation (Note 9)	14,700,000	15,038,000
	17,446,562	17,263,488
Less:		
Net cost of operations	13,377,156	14,516,926
Equity at end of the year	4,069,406	2,746,562

See accompanying notes.

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Program expenses		
Development expenses		
Tourism, entertainment and culture	4,971,827	1,835,790
Specific initiatives	3,151,443	6,662,168
Knowledge based industries	677,512	1,206,685
Youth skills	437,788	374,410
Private sector business services	433,179	575,509
Manufacturing and processing	177,607	445,453
Resource industries	108,501	428,008
	9,957,857	11,528,023
Other program expenses		
Program support	1,334,135	1,310,218
Rental facilities	710,186	923,616
Provision for loan impairment	673,008	195,474
	2,717,329	2,429,308
Total program expenses	12,675,186	13,957,331
Administrative expenses	1,196,676	1,219,053
Communications	269,181	226,967
Amortization	84,606	57,945
	1,550,463	1,503,965
Total expenses	14,225,649	15,461,296
Revenue		
Rental facilities	612,891	714,744
Loan and investment interest	164,493	131,462
Other interest	71,109	98,164
Total revenue	848,493	944,370
Activities carried out on behalf of the Atlantic Canada Opportunities Agency (Note 11)		
Program expenses	17,639,488	16,427,794
Salaries, professional and other services	1,451,259	1,448,605
	19,090,747	17,876,399
Less: costs recovered	(19,090,747)	(17,876,399)
Net cost of operations	13,377,156	14,516,926

See accompanying notes.

STATEMENT OF CHANGES
IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Financing activities		
Parliamentary appropriation	14,700,000	15,038,000
Decrease in parliamentary appropriation receivable		1,321,900
Cash provided by financing activities	14,700,000	16,359,900
Operating activities		
Net cost of operations	(13,377,156)	(14,516,926)
Charges (credits) not affecting cash		
Amortization	84,606	57,945
Increase (decrease) in provision for employee termination benefits	43,986	(15,295)
Increase (decrease) in provision for doubtful investments	100,000	(7,677)
Provision for loan impairment	673,008	195,474
	(12,475,556)	(14,286,479)
Increase in non-cash operating working capital	(842,622)	(917,715)
Employee termination benefit payments	(15,909)	(165,417)
Cash used in operating activities	(13,334,087)	(15,369,611)
Investing activities		
Loan advances	(1,170,745)	(1,274,632)
Loan repayments	514,068	525,904
(Purchase) redemption of investments	(700,000)	37,677
Purchase of capital assets	(133,254)	(77,653)
Cash used in investing activities	(1,489,931)	(788,704)
Decrease (increase) in bank indebtedness and term deposits	(124,018)	201,585
Bank indebtedness and term deposits at beginning of the year	512,752	311,167
Bank indebtedness and term deposits at end of the year	388,734	512,752

See accompanying notes.

ENTERPRISE CAPE BRETON CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

1. The Corporation

Authority and objectives

Enterprise Cape Breton Corporation was established pursuant to the *Enterprise Cape Breton Corporation Act* (Part II of the *Government Organization Act, Atlantic Canada, 1987*) which was proclaimed on December 1, 1988. The Corporation is an agent Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. Its objects, as stated in its enabling legislation, are:

> to promote and assist either alone or in conjunction with any person or the Government of Canada or of Nova Scotia or any agency of either of those governments, the financing and development of industry on the Island of Cape Breton to provide employment outside the coal producing industry and to broaden the base of the economy of the Island.

2. Significant accounting policies

(a) Parliamentary appropriations

Parliamentary appropriations are recorded in the statement of equity on an accrual basis when approved by Parliament with drawdowns based on cash requirements.

(b) Management estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount af assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. Despite the use of the Corporation's best estimates, it is reasonably possible that the amounts for the following balance sheet items and related expenses could change materially in the near term: the allowance for loan impairment (see also Notes 5 and 6) and the allowance for doubtful investments.

(c) Loans

Loans, including repayable contributions, are recorded at the lower of cost and estimated net realizable value.

Certain loans are subject to terms of forgiveness as stipulated in the loan contract. The amount of forgiveness is charged to operations when the loan is issued.

Loans are written off after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is unlikely.

(d) Allowance for loan impairment

Loans are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of the full amount of principal and interest, where applicable. A specific allowance is established to reduce the recorded value of the loan to its estimated net realizable value if there is doubt as to the timely collection on a particular loan. Impaired loans are measured according to their estimated realizable amounts by discounting expected future cash flows at the effective interest rate inherent in the loans. When future cash flows cannot be estimated with reasonable reliability, the estimated realizable amounts are measured at the fair value of any security underlying the loans, net of any expected costs of realization.

A general allowance is established in respect of loans for which individual specific provisions cannot yet be determined. The general allowance is based upon an evaluation of the loan portfolio in which numerous factors are assessed, including an analysis of arrears, past loss experience, recent events and changes in economic conditions.

Initial and subsequent changes in the amount of impairment are recorded as a charge or credit to the provision for loan impairment.

(e) Investments

The Corporation has invested in preferred equity holdings and a partnership. These are shown at the lower of cost and estimated net realizable value. Estimated net realizable value is measured by discounting expected future cash flows.

(f) Interest income

Interest income is recorded on the accrual basis. When a loan becomes impaired, interest income ceases to be recognized. Recognition of interest income recommences if the specific allowance for loan impairment is recovered.

(g) Capital assets

Capital assets are recorded at lower of cost less accumulated amortization and net recoverable value. Amortization is provided over the estimated useful lives of the capital assets using the straight-line method at the rates indicated below:

Buildings	up to 25 years
Equipment and furniture	4 to 10 years
Computer equipment and software	5 years
Leasehold improvements	up to 20 years
Vehicles	3 or 4 years

(h) Pension plan

All eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required equally from the employees and the Corporation. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(i) Termination benefits

Upon termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

The liability for termination benefits is estimated by management based on current entitlements.

(j) Provision for environmental cleanup

The provision for environmental cleanup represents management's best estimate of the cost to clean up properties that contain environmental contaminants. Management monitors the progress of its cleanup activities and any changes in the estimated cost are recognized when they can be reasonably determined.

ENTERPRISE CAPE BRETON CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

3. Term deposits

The Corporation has term deposits with a major Canadian chartered bank in the amount of $997,590 and $797,944 (1996—$1,493,715). The term deposits have effective rates of interest of 3.04% and 3.14% respectively (1996—4.95%) and mature on April 18, 1997 and April 25, 1997 respectively. The fair values of the term deposits approximate their carrying value.

4. Accounts receivable and accounts payable

Accounts receivable are comprised of the following:

	1997	1996
	$	$
Due from the Atlantic Canada Opportunities Agency (Note 11)	1,267,440	918,448
Other receivables	189,715	240,154
	1,457,155	1,158,602

The amount due from the Atlantic Canada Opportunities Agency relates to expenditures made on behalf of the Agency in accordance with a memorandum of understanding. Other receivables are incurred in the normal course of business with no significant concentration of debtors.

Accounts receivable and accounts payable are due on demand, are non-interest bearing and the carrying amounts approximate fair values because of their short maturity.

5. Loans

	1997	1996
	$	$
Loans	2,534,403	2,804,703
Repayable contributions	1,590,756	792,197
Interest receivable	27,848	24,314
	4,153,007	3,621,214
Less: allowance for loan impairment (Note 6)	1,799,719	1,251,595
	2,353,288	2,369,619

Loans for which the final conditions of forgiveness have not been met are valued at $139,916 (1996—$895,816). These loans have been charged to operations in either the current or previous years. However, if certain terms and conditions of the letter of commitment are not fulfilled, the loan may become due and payable by the client.

Loans are issued in order to promote economic development. All loans are issued to individuals and businesses which conduct their business in Cape Breton. In 1997, three debtors accounted for 40% of the March 31 loan balance (1996—four debtors, 51% of the loan balance).

The fair values of loans are determined using discounted expected future cash flows. The fair values of loans approximate their carrying value.

An analysis of the loan balance outstanding at March 31 is as follows:

Annual interest rate	1997	1996
	$	$
0%	2,924,621	2,735,501
Less than 10%	640,448	560,360
10% and over	560,090	301,039
	4,125,159	3,596,900
Interest receivable	27,848	24,314
	4,153,007	3,621,214
Less: allowance for loan impairment (Note 6)	1,799,719	1,251,595
	2,353,288	2,369,619

The interest rates are fixed over the terms of the loans.

Amounts due by fiscal year based on loan terms are as follows:

	1997	1996
	$	$
Principal		
Past due	288,691	56,635
1997		757,425
1998	515,843	275,629
1999	882,954	803,988
2000	467,798	396,929
2001	356,189	346,283
2002 and beyond	1,613,684	960,011
	4,125,159	3,596,900
Interest receivable	27,848	24,314
	4,153,007	3,621,214
Less: allowance for loan impairment (Note 6)	1,799,719	1,251,595
	2,353,288	2,369,619

ENTERPRISE CAPE BRETON CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

6. Allowance for loan impairment

	1997			1996
	Specific	General	Total	Total
	$	$	$	$
Balance at beginning of the year	1,051,595	200,000	1,251,595	1,164,690
Write-offs due to restructuring	(15,511)		(15,511)	
Write-offs	(109,373)		(109,373)	(108,569)
Provision for loan impairment	673,008		673,008	195,474
Balance at end of the year	1,599,719	200,000	1,799,719	1,251,595

The investment value of those loans specifically identified as being impaired is $1,814,740 (1996—$1,298,637).

7. Investments

The Corporation has an interest of $300,000 in an office building and shares in the net income earned based on its percentage interest. The Corporation's share of net income is $73,101 (1996—$57,138).

The Corporation also holds $750,000 in non-voting, redeemable and retractable preferred shares in private sector entities. No dividends were received or declared during the year.

The fair values of investments are determined using discounted contracted future cash flows. The fair values of investments approximate their carrying value.

8. Capital assets

	1997			1996		
	Cost	Accumulated amortization and write down	Net book value	Cost	Accumulated amortization and write down	Net book value
	$	$	$	$	$	$
Land for development	532,441	532,440	1	532,441	532,440	1
Equipment, furniture, leaseholds	1,120,302	962,683	157,619	1,038,181	929,210	108,971
Rental facilities	15,565,585	15,565,585		15,514,452	15,514,452	
	17,218,328	17,060,708	157,620	17,085,074	16,976,102	108,972

9. Funding from Government of Canada

The Government of Canada approved a parliamentary appropriation in the amount of $14,700,000 (1996—$17,538,000) of which the Corporation utilized $14,700,000 (1996—$15,038,000).

ENTERPRISE CAPE BRETON CORPORATION—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

10. Commitments

(a) As at March 31, 1997 the Corporation had outstanding commitments for development programs in the amount of $3,802,968 (1996—$6,677,317).

(b) Future minimum payments by fiscal year on operating leases in excess of one year are as follows:

	$
1998	470,915
1999	501,791
2000	21,717
2001 and beyond	30,766
	1,025,189

11. Related party transactions

The Corporation entered into a memorandum of understanding with the Atlantic Canada Opportunities Agency establishing the arrangements for the Corporation to deliver the Agency's programs on the Island of Cape Breton. As of March 31, 1997, the Agency reimbursed the cost of its program activities and related program delivery provided by the Corporation except for the amount included in accounts receivable of $1,267,440 (1996—$918,448).

The cost of services provided by other federal government departments, agencies, and Crown corporations are reflected in the statement of operations and totalled $418,254 (1996—$485,189). These transactions are in the normal course of operations and are measured at the exchange amount.

EXPORT DEVELOPMENT CORPORATION

FINANCIAL REPORTING RESPONSIBILITY

The Consolidated Financial Statements contained in this Annual Report have been prepared by Management in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. The integrity and objectivity of the data in these Consolidated Financial Statements are Management's responsibility. The Consolidated Financial Statements include some amounts, such as the allowances for losses on loans and claims, that are necessarily based on Management's best estimates and judgment. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the Consolidated Financial Statements.

In support of its responsibility, Management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and the operations are carried out effectively. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with Management, the internal auditors and the Auditor General of Canada on a regular basis.

The Board of Directors of EDC is responsible for all business undertaken by the Corporation. Contracts which, in the opinion of the Board of Directors, involve risks for a term or an amount in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Governor General in Council where the Minister considers them to be in the national interest. The Board of Directors has the predominant role in the management of this program and is solely responsible for its administration. Funds required for such contracts are paid to the Corporation by Canada, and funds recovered are remitted to Canada, net of amounts withheld to cover related administrative expenses. Canada Account transactions are shown in Note 18 to the Corporation's Consolidated Financial Statements.

The Auditor General of Canada conducts an independent audit, in accordance with generally accepted auditing standards, and expresses his opinion on the Consolidated Financial Statements. His report is presented on the following page.

Paul Labbé
President and Chief Executive Officer

Roger Pruneau
Executive Vice-President and Chief Financial Officer

AUDITOR'S REPORT

TO THE MINISTER OF INTERNATIONAL TRADE

I have audited the consolidated balance sheet of the Export Development Corporation as at December 31, 1996 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations and the by-laws of the Corporation and its wholly-owned subsidiary.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 5, 1997

EXPORT DEVELOPMENT CORPORATION—*Continued*

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1996
(in millions of dollars)

ASSETS	1996	1995
CASH AND INVESTMENTS		
Cash and marketable securities (Note 3)	1,037	1,220
Investments (Note 4)	407	239
Accrued interest	15	19
	1,459	1,478
LOANS RECEIVABLE		
Net loans receivable (Notes 5, 6 and 7)	8,048	7,727
Accrued interest and fees	140	159
	8,188	7,886
OTHER		
Recoverable insurance claims (Note 10)	25	20
Other assets	34	16
	59	36
	9,706	9,400

LIABILITIES	1996	1995
LOANS PAYABLE (Notes 11 and 12)		
Loans payable	7,735	7,668
Accrued interest	94	154
	7,829	7,822
OTHER LIABILITIES AND DEFERRED REVENUES		
Accounts payable	80	50
Deferred insurance premiums	11	15
Allowance for claims on insurance and guarantees (Note 10)	205	181
Deferred loan revenues and other credits	164	159
	460	405
Loan commitments and insurance and guarantees (Notes 8 and 9)		
SHAREHOLDER'S EQUITY		
Share capital (Note 13)	983	851
Retained earnings	434	322
	1,417	1,173
	9,706	9,400

See accompanying notes.

Approved by the Board of Directors:

W. R. C. BLUNDELL
Director

ROGER PRUNEAU
Executive Vice-President and Chief Financial Officer

PAUL LABBÉ
Director

EXPORT DEVELOPMENT CORPORATION—*Continued*

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1996
(in millions of dollars)

	1996	1995
Loans		
Interest earned	633	759
Fees earned	58	57
	691	816
Less: provision for losses on loans (Note 7)	202	341
	489	475
Insurance		
Premiums and fees earned	89	74
Less: provision for claims on insurance (Note 10)	68	49
	21	25
Investment income	110	75
	620	575
Interest expense	448	474
Administrative expenses	60	57
	508	531
Net income	112	44
Retained earnings		
Beginning of year	322	278
End of year	434	322

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1996
(in millions of dollars)

	1996	1995
Operating activities		
Net income	112	44
Items not affecting cash		
Provision for losses on loans	202	341
Provision for claims on insurance	68	49
Accrued interest and fees	(38)	14
Net increase (decrease) in deferred revenue	(10)	4
Other changes	(46)	(34)
Cash provided	288	418
Lending activities		
Loan disbursements	(2,463)	(2,172)
Loan repayments	1,980	2,114
Items not affecting cash		
Interest rescheduled	(33)	(131)
Cash used	(516)	(189)
Financing activities		
Issue of long-term loans payable	1,775	556
Repayment of long-term loans payable	(1,530)	(218)
Decrease in short-term loans payable	(161)	(232)
Issue of share capital	132	38
Increase in investments	(168)	(53)
Cash provided	48	91
Increase (decrease) in cash and marketable securities	(180)	320
Foreign exchange on opening balance of cash	(3)	(11)
Cash and marketable securities		
Beginning of year	1,220	911
End of year	1,037	1,220

See accompanying notes.

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996

1. Corporate mandate and activities

Export Development Corporation ("The Corporation" or "EDC") was established on October 1, 1969 by the *Export Development Act* ("The Act"), a statute of the Parliament of Canada which was amended on June 10, 1993. The Corporation was created as an agent of Her Majesty in right of Canada for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. This Act as amended gives EDC the flexibility to consider a wider range of options to meet the needs of Canadian exporters and those investing in foreign markets. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

EDC incorporated Exinvest Inc. ("The Subsidiary"), under the *Canada Business Corporations Act* on August 1, 1995. All funds for the commencement of the Subsidiary were received from the Government of Canada. The Subsidiary shares the same fiscal year-end as the Corporation. The Subsidiary commenced operations in January 1996. The activities of the Subsidiary have been consolidated with those of the Corporation.

The earnings of the Corporation and its Subsidiary are not subject to the requirements of the *Income Tax Act*.

The Corporation is subject to a limit imposed by the Act on its contingent liability programs. The Act specifies that the Corporation's contingent liabilities in respect of the principal amounts owing under all outstanding arrangements shall at no time exceed $15 billion, an amount equal to ten times the authorized capital of the Corporation. As at December 31, 1996, the position against this limit is $8.9 billion (1995—$7.9 billion).

As an agent of Her Majesty in right of Canada, debt instruments issued by the Corporation carry the full faith and credit of Canada. The Act allows the Corporation to borrow up to a maximum of fifteen times the aggregate of its current paid-in capital and the retained earnings determined in accordance with the previous year's audited Financial Statements. This limit for borrowing as at December 31, 1996 is $19.6 billion (1995—$16.9 billion), against which borrowings amounted to $7.7 billion (1995—$7.7 billion).

2. Summary of significant accounting policies

Cash and marketable securities

Investments which are being held to maturity are carried at cost. Gains and losses on these investments are recognized in income only when they are realized and the asset is removed from the balance sheet. Available for sale securities are carried at market value. The gains and losses arising from investments carried at market value are included in investment income.

Net loans receivable

Net loans receivable are stated net of non-accrued capitalized interest and the allowance for losses on loans. Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired. Rescheduled loans are considered performing unless they meet the criteria of impaired loans.

Loan interest is recorded as revenue on an accrual basis until such time as Management determines that a loan should be classified as impaired. Loans are classified as impaired when circumstances indicate that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. When a loan is classified as impaired, the Corporation reverses previously accrued interest against the allowance for losses on loans. Amounts received for impaired loans are credited to the book value of the loans. No portion of cash received on a loan subsequent to its classification as impaired is recorded as interest earned until such time as any specific allowance has been reversed, and it is deemed that the loan principal is fully collectible in accordance with the contractual terms of the loan. An impaired loan is restored to a performing basis after a pattern of regular payments has been established, normally three years. When the Corporation restores the impaired loan to an accrual basis, previously non-accrued capitalized interest is recognized over the remaining term of the loan.

When sovereign borrowers experience financial difficulties and are unable to meet their debt obligations, sovereign creditors, including the Government of Canada, agree at an international forum, the Paris Club, to formally reschedule the borrower's debt obligations. From time to time and on a case-by-case basis, the most heavily indebted sovereign borrowers are granted debt reduction or debt service relief. The granting of debt reduction or relief is contigent upon the sovereign borrower's ability to implement and maintain economic programs outlined by the International Monetary Fund. To date, the Government of Canada has fully compensated the Corporation for all amounts forgiven at the Paris Club, and these payments for impaired loans or loans previously classified as impaired are credited to the book value of the loans.

Loan fees, mainly exposure fees and administration fees, are normally amortized as fee revenue over the disbursement and repayment term of the related loan.

Allowance for losses on loans

The allowance for losses on loans is based on a review of collectibility of all loans to commercial and sovereign borrowers and represents Management's best estimate of probable credit losses on loans receivable. However, actual loan losses are not predictable with certainty and, therefore, may vary materially from Management's estimate. The Corporation has a specific allowance for those loans identified as impaired, a general allowance for those loans not specifically identified as impaired, and a risk concentration allowance.

When a loan is considered impaired, the carrying value of the loan is reduced to its estimated realizable value by discounting expected cash flows at the rates inherent in the loan. The amount of initial impairment and any subsequent changes due to the re-evaluation of estimated future cash flows are recorded through the provision for losses on loans as an adjustment to the specific allowance for impaired loans.

The general allowance is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, Management models its portfolio into credit risk pools by investment and below investment grades and takes into account historical default rates over term and loss percentages in relation to its credit profile.

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

The Corporation through its continued support for Canadian exporters has accumulated significant risk concentrations in low investment grade and below investment grade countries, and with commercial counterparties in investment grade countries beyond that normally considered acceptable for financial institutions. These large risk concentrations expose the Corporation, in Management's judgment, to significant additional risk of credit loss. Commencing in 1996, the Corporation has set aside an allowance as a result of these risk concentrations.

For the year ended December 31, 1996, the new accounting standards for impaired loans issued by the Canadian Institute for Chartered Accountants were adopted by the Corporation. The Corporation's previous provisioning practices were sufficient to fully accommodate the requirements of the implementation of the impaired loans recommendations, and to reflect the cumulative prior period adjustments. Accordingly, no adjustments to previously recorded amounts were required.

Recoverable insurance claims

Recoverable insurance claims payments are recorded at estimated recoverable values. Subsequent net gains or losses on recovery are credited or charged to the allowance for claims on insurance and guarantees when estimates are re-evaluated.

Allowance for claims on insurance and guarantees

The allowance for claims on insurance and guarantees is based on an actuarial review of net loss experience and potential net losses and represents Management's best estimate of the net present value of the liability under existing policies and guarantees. However, actual insurance and guarantee losses are not predictable with certainty and, therefore, may vary from Management's estimate.

Insurance premiums

For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods which generally reflect the exposures over the terms of the policies. Reinsurance premiums and recoveries on losses incurred are recorded as reductions of the respective income and balance sheet accounts. Unearned premiums on insurance transferred to reinsurers and estimates of amounts recoverable from reinsurers on unpaid claims are deducted from deferred premiums and recoverable claims respectively.

Interest expense

Interest expense includes expenses of derivative financial instruments, and the amortization of debt discount and issue expenses. Gains or losses incurred upon debt repurchases by the Corporation and related swap unwinds are either taken into income at the time of the transaction or deferred and amortized over the life of other new debt issue if a replacement debt issue occurs.

Translation of foreign currency

All assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income and expenses are translated at monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included with investment income.

Derivative financial instruments

The Corporation uses a variety of derivative financial instruments to manage operating exposures such as foreign exchange fluctuations and changes in interest rates. These contracts are carried on a cost basis. Premiums paid or received on these instruments are deferred and amortized over the life of the contract. Net receipts or payments are recognized in income on an accrual basis in the same period and the same financial statement category to which the contract is related.

Reclassification of comparative figures

Certain 1995 comparative figures have been reclassified to conform with the presentation adopted in 1996.

3. Cash and marketable securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs marketable securities are held in either the investment or available for sale portfolios.

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

Securities in the investment portfolio are held for liquidity and longer term investment. Available for sale securities are intended to be held for a short period of time. Swap contracts are agreements between two counterparties to exchange interest payments over an agreed upon period, each calculated using a different interest rate index and denominated in either the same currency or a different currency.

	Remaining term to maturity			1996	1995
	Under 1 year	1 to 3 years	Over 3 years	Total	Total
	(in millions of dollars)				
Investment portfolio					
Fixed rate securities	101	132	25	258	221
Swap contracts	(65)	(127)		(192)	(76)
Net fixed	36	5	25	66	145
Yield to maturity %	*5.07*	*5.57*	*7.50*	*6.88*	*7.32*
Floating rate securities	536	69	64	669	809
Swap contracts	65	127		192	76
Net floating	601	196	64	861	885
Yield to reset %				*4.84*	*5.73*
Total investment portfolio	637	201	89	927	1,030
Available for sale portfolio					
Fixed rate securities	1	7	9	17	45
Floating rate securities	72	6	15	93	145
Total available for sale portfolio	73	13	24	110	190
Spot yield %				*4.64*	*6.64*
Value at purchase	*73*	*13*	*29*	*115*	*203*
Total cash and marketable securities	710	214	113	1,037	1,220

Credit exposure arises from the possibility that a counterparty may default on their obligations. Credit exposure related to securities held in the investment portfolio and the available for sale portfolio is represented by their carrying value. For swap contracts, it is a fraction of the notional amount of the instruments shown above represented by the replacement cost of those contracts that have a positive fair value (a contract which if settled currently would result in a gain). Credit exposure for swap contracts held in the investment portfolio are included as part of Note 15.

4. Investments

The Corporation has investments in notes issued by two Crown corporations, Ridley Terminals, Inc. and the Vancouver Port Corporation, totalling $308 million (1995—$234 million). Both corporations are related to EDC as a result of common ownership. EDC intends to hold these investments to maturity. These transactions were performed in the normal course of business, transacted at fair value, and are recorded at cost. Total revenue from these investments amounted to $19 million in 1996 (1995—$16 million).

	Amount	Yield* %	Term*/ Months
	(in millions of dollars)		
Fixed rate investments	300	7.55	63
Floating rate investments	8	3.77	2

* Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.

Investments also include $99 million (1995—$5 million) in cash and securities held by EDC's subsidiary Exinvest Inc..

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

5. Net loans receivable

The following table shows the contractual maturity along with related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for US dollars and Prime for Canadian dollars:

	1996					1995				
	Fixed $	Yield to maturity %	Floating $	Spread %	Total $	Fixed $	Yield to maturity %	Floating $	Spread %	Total $
	(in millions of dollars)									
Performing										
Overdue	6	8.96	1	1.24	7	6	9.46	1	0.87	7
1996						523	9.24	801	0.85	1,324
1997	605	8.83	775	1.14	1,380	526	9.12	460	1.33	986
1998	548	9.17	506	1.67	1,054	458	9.33	420	1.32	878
1999	468	9.27	497	1.68	965	401	9.37	392	1.31	793
2000	418	9.21	393	1.77	811	364	9.36	305	1.44	669
2001	545	9.23	381	1.69	926	400	9.37	253	1.10	653
2002-2006	1,238	8.68	938	0.97	2,176	995	8.92	734	0.68	1,729
2007 and beyond	647	8.97	619	0.47	1,266	425	9.64	551	0.40	976
Performing	4,475	8.92	4,110	1.24	8,585	4,098	9.27	3,917	0.96	8,015
Impaired	257		1,662		1,919	322		1,573		1,895
Gross loans receivable	4,732		5,772		10,504	4,420		5,490		9,910
Less: non-accrued capitalized interest on										
— Impaired loans					774					665
— Performing loans[1]					224					262
Loans receivable					9,506					8,983
Less: allowance for losses on loans (Note 7)					1,458					1,256
Net loans receivable					8,048					7,727

[1] Represents the unamortized balance that accrued while the loan was impaired.

At December 31, 1996, the floating rate performing gross loans receivable are yielding 6.52% (1995—6.99%) with an average term to reset of 88 days (1995—99 days).

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

	1996					1995				
	Fixed $	Yield to maturity %	Floating $	Spread %	Total $	Fixed $	Yield to maturity %	Floating $	Spread %	Total $
	(in millions of dollars)									
Sovereign	2,785	8.85	2,148	0.93	4,933	2,830	8.90	2,286	0.87	5,116
Commercial	1,690	8.99	1,962	1.63	3,652	1,268	9.72	1,631	1.14	2,899
Total	4,475	8.92	4,110	1.24	8,585	4,098	9.27	3,917	0.96	8,015

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

6. Impaired loans receivable

The Corporation has $1,919 million impaired gross loans receivable (1995—$1,895 million) of which $1,787 million is sovereign (1995—$1,792 million) and $132 million is commercial (1995—$103 million). The following reflects the movement in the impaired loans portfolio during the year:

	1996	1995
	(in millions of dollars)	
Balance at beginning of year	1,895	2,598
Loans classified as impaired	29	47
Loans reinstated to performing		(675)
Capitalized interest	78	103
Principal receipts	(55)	(113)
Compensation from the Government of Canada for debt relief	(26)	(19)
Foreign exchange	(2)	(46)
Balance at end of year	1,919	1,895

The largest concentrations of gross loans receivable for impaired loans are listed in the following table. Non-accrued interest represents contractually earned interest that has not been capitalized through rescheduling agreements.

	1996			1995		
	Gross loans receivable	Non-accrued capitalized interest*	Non-accrued interest	Gross loans receivable	Non-accrued capitalized interest*	Non-accrued interest
	(in millions of dollars)					
Sovereign						
Peru	571	340	39	591	332	7
Cameroon	400	150	18	362	100	41
Côte d'Ivoire	252	111	5	254	95	6
Russia	112	31	4	84	25	3
Gabon	74	18	2	78	10	4
Other	378	124	121	423	103	108
Sub-total	1,787	774	189	1,792	665	169
Commercial						
Financial institutions	103		69	103		52
Aircraft manufacturer	29		2			
Sub-total	132		71	103		52
Total impaired	1,919	774	260	1,895	665	221

*Non-accrued capitalized interest is included in gross loans receivable.

During 1996, payments for impaired loans were $89 million (1995—$182 million). For 1996, these amounts were applied to the book value of the impaired loans and did not affect interest earned in accordance with the adoption of the new accounting standards for impaired loans. For 1995, payments received increased interest earned by $116 million.

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

The largest receipts for impaired loans including contractual principal and interest from sovereign borrowers were as noted:

	1996	1995
	(in millions of dollars)	
Peru	29	
Brazil		97
Kenya	12	11
Gabon	11	21
Cameroon	10	
Ecuador		9
Bulgaria	6	9
Other	21	35
Total	89	182

7. Allowance for losses on loans

The composition of the allowance for losses on loans is as follows:

	1996			1995		
	Sovereign	Commercial	Total	Sovereign	Commercial	Total
			(in millions of dollars)			
Specific allowance for impaired loans	534	127	661	612	97	709
General allowance	361	272	633	388	159	547
Risk concentration allowance			164			
Total	895	399	1,458	1,000	256	1,256

The specific allowance for impaired loans reduces the carrying value of impaired loans to the net present value of expected cash flows. Estimated cash flows are based on historical payments from sovereign borrowers demonstrating to a large extent each borrower's willingness and ability to meet future payments. The historical payments are then modified when necessary to derive the estimated future cash flows which are then discounted using rates inherent in agreements.

The Corporation has significant geographic concentrations in low and below investment grade countries, as determined by external credit agencies. Seven such countries represent $3,796 million or 44% of the Corporation's performing loans receivable and related loan guarantee exposures. In addition, the Corporation has a single counterparty exposure, a ground transportation entity, of $690 million in the United States. These exposures are used to determine a risk concentration allowance of $164 million.

During the year, changes to the allowance for losses on loans were as follows:

	1996	1995
	(in millions of dollars)	
Balance at beginning of year	1,256	935
Provision for losses on loans	202	341
Interest reversals for impaired loans	(1)	(3)
Foreign exchange	1	(17)
Balance at end of year	1,458	1,256

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

8. Loan commitments

The Corporation has undisbursed commitments of $2,863 million (1995—$1,854 million). The Corporation expects to fund these undisbursed commitments near the time of their disbursement. The Corporation generally attempts to match debt maturities and currencies with those of its loan assets on a portfolio basis.

Undisbursed commitments with their locked-in effective yields are outlined in the following table. All yields are computed on a weighted average basis and the spread over floating interest rates are represented mainly by LIBOR for US dollars. In addition to the amounts in the following table, the Corporation is committed to disburse $223 million whose fixed rate effective yield will be determined in the future and closer to the time of disbursement.

	1996				1995			
	Fixed $	Spot yield %	Floating $	Spread %	Fixed $	Spot yield %	Floating $	Spread %
	(in millions of dollars)							
Sovereign	417	8.41	409	2.49	454	8.76	227	2.86
Commercial	75	9.72	1,739	1.14	116	8.72	1,057	1.01
Total	492	8.61	2,148	1.40	570	8.75	1,284	1.34

9. Contingent liabilities

The Corporation has insurance policies in force and guarantees outstanding of $7,432 million (1995—$6,214 million) which mature as follows:

	1996	1995
	(in millions of dollars)	
Short-term program	5,081	4,000
Medium-term program		
1996		430
1997	370	298
1998	340	113
1999	295	275
2000	97	84
2001	395	259
2002-2006	454	407
2007 and beyond	400	348
Total	7,432	6,214

The major concentrations by location of ultimate risk are as follows:

	1996			1995		
	Short-term	Medium-term	Total	Short-term	Medium-term	Total
	(in millions of dollars)					
Mexico	391	14	405	377	10	387
US	1,580	38	1,618	1,173	65	1,238
Brazil	585	19	604	364	3	367
Japan				353	2	355
Canada	612	312	924	147	207	354
Iran	390	60	450			
Other	1,523	1,908	3,431	1,586	1,927	3,513
Total	5,081	2,351	7,432	4,000	2,214	6,214

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

Of the $7,432 million (1995—$6,214 million) insurance policies in force and guarantees, the following policy types were supported:

	1996	1995
	(in millions of dollars)	
Credit insurance	5,362	4,232
Performance security	369	427
Surety	295	204
Bulk agriculture	40	123
Foreign investment insurance	928	872
Loan guarantees	438	356
Total	7,432	6,214

Reinsurance of $122 million (1995—$116 million) has been deducted from the insurance policies in force.

10. Recoverable insurance claims and allowance for claims

In 1996, the Corporation paid claims on insurance of $60 million (1995—$28 million), and recovered claims of $11 million (1995—$8 million).

Of the $60 million in claim payments made during 1996, 94% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

	1996		1995	
	Claims paid	Claims recovered	Claims paid	Claims recovered
	(in millions of dollars)			
US	16	3	12	3
Cuba	20	3	2	2
Mexico			8	1
Venezuela			3	1
Canada	5	1	1	
Brazil	4			
Spain	4			
Other	11	4	2	1
Total	60	11	28	8

During the year, changes to the allowance for claims were as follows:

	1996	1995
	(in millions of dollars)	
Balance at beginning of year	181	149
Provision for claims on insurance	68	49
Claims recovery expenses		(2)
Re-evaluation of recoverable claims	(43)	(13)
Foreign exchange	(1)	(2)
Balance at end of year	205	181

11. Loans payable

The Corporation issues debt instruments in world capital markets. Short-term payables represent liabilities of the Corporation that are issued with maturities under one year. Long-term debt instruments are issued by the Corporation in Canadian dollars, US dollars and other currencies. The Corporation utilizes currency swaps to convert foreign denominated fixed rate notes primarily to US dollars. Interest rate swaps are principally utilized to convert fixed rate instruments to floating rates primarily related to LIBOR. Derivative contracts and structured notes are used to minimize the cost of capital and are also used for asset/liability management purposes.

Loans payable are comprised as follows:

	1996		1995	
	Loans payable	Interest expense	Loans payable	Interest expense
	(in millions of dollars)			
Short-term payables	853	63	1,023	60
Long-term payables				
- due within 12 months	724		1,008	
- over one year	6,103	385	5,571	414
Sub-total	7,680	448	7,602	474
Plus:				
- unamortized discounts and premiums	11		10	
- deferrals	44		56	
Total loans payable	7,735		7,668	

Discounts and premiums are related to the issue of long-term debt and swaps. Deferrals include gains and losses incurred upon debt repurchases and swap unwinds.

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

Accrued interest is comprised as follows:

	1996	1995
	(in millions of dollars)	
Short-term	4	4
Long-term		
- Debt issued	229	257
- Swap contracts	(139)	(107)
Total accrued interest	94	154

The accrued interest for the above swap contracts is presented on a net basis.

Structured notes outstanding, included in loans payable, are as follows:

	1996	1995
	(in millions of dollars)	
Equity index linked	467	13
Dual currency	1,034	663
Step-up	189	224
Other	143	68

EDC has entered into a number of structured notes as part of its funding program. The Corporation has executed swap contracts to remove market risk on these borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has synthetically created floating rate debt. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by dealing with counterparties evaluated as creditworthy, through management limits to counterparties and other credit mitigation techniques. Credit exposure on derivative financial instruments is further discussed in Note 15.

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

12. Loans payable maturities

Total loans payable and related notional swap amounts mature as follows:

				1996	1995
Year of maturity	Issues	Swap contracts	Net	Yield* (%)	Net
			(in millions of dollars)		
Fixed rate issues					
1996					273
1997	727	(457)	270	7.05	270
1998	1,825	(1,138)	687	6.64	688
1999	1,317	(564)	753	6.98	751
2000	838	(565)	273	8.74	273
2001	297	(297)			
2002 to 2006	1,270	(992)	278	8.35	252
2007 and beyond	304	(60)	244	8.31	268
Sub-total	6,578	(4,073)	2,505	8.07	2,775
Floating rate issues					
1996					1,759
1997	853	454	1,307		491
1998		1,159	1,159		970
1999	75	557	632		68
2000	8	512	520		198
2001	68	276	344		235
2002 to 2006	157	996	1,153		235
2007 and beyond		60	60		871
Sub-total	1,161	4,014	5,175	4.93	4,827
Total					
1996					2,032
1997	1,580	(3)	1,577		761
1998	1,825	21	1,846		1,658
1999	1,392	(7)	1,385		819
2000	846	(53)	793		471
2001	365	(21)	344		235
2002 to 2006	1,427	4	1,431		487
2007 and beyond	304		304		1,139
Total	7,739	(59)	7,680		7,602

* Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.

Credit exposure and other details on swap contracts are included as part of Note 15.

13. Share capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is 9.8 million (1995—8.5 million). During 1996, the Corporation issued 1,320 thousand shares (1995—380 thousand).

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

14. Foreign currency balances

The Corporation has substantial assets and liabilities in US dollars and in other currencies. In addition, the Corporation has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while sustaining prudent levels of risk.

The following chart shows where the Corporation has created synthetic debt and asset positions through such instruments and the resulting net foreign currency exposure.

	Assets			Liabilities			1996		1995	
	Gross	D.F.I.*	Net	Gross	D.F.I.*	Net	Exposure	Rate	Exposure	Rate
					(in millions of dollars)					
US Dollars	7,405	141	7,546	(4,634)	(2,749)	(7,383)	163	1.3696	149	1.3652
Deutsche Marks	385		385	(482)	44	(438)	(53)	0.8900	(148)	0.9520
European Currency Units	179	(7)	172	(20)	(137)	(157)	15	1.7219	101	1.7503
British Pounds	128		128	(1)	(118)	(119)	9	2.3454	4	2.1202
Italian Lira				(183)	181	(2)	(2)	0.0009	(3)	0.0009
Swiss Francs	4		4	(12)	7	(5)	(1)	1.0232		1.1840
Australian Dollars	15	(15)		(897)	897			1.0886		1.0156
Japanese Yen	19	(17)	2	(383)	381	(2)		0.0118	3	0.0132
New Zealand dollars			..	(134)	134			0.9690		0.8926

* "Derivative Financial Instruments" includes currency swaps and foreign exchange contracts. See Note 15.

The Corporation incurred a foreign exchange gain of $11 million in 1996 (1995—$12 million loss). This amount is included in investment income.

15. Derivative financial instruments

The Treasury Division actively manages EDC's exposure to market risk through the use of derivative financial instruments held for non-trading purposes. EDC utilizes a variety of these instruments to manage funding costs, investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with guidelines established in the Treasury Risk Management department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest rate swaps—transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency swaps—transactions in which two parties exchange currencies at inception and at maturity as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest.

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

Equity index swaps—transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments: one of which represents the percentage change in an agreed upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap in that no exchange of notional amounts occur or a currency swap in which currencies will be exchanged at both inception and maturity.

Foreign exchange contracts—commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Forward rate agreements—contracts fixing an interest rate to be paid on a notional deposit of specified maturity commencing at a specified future date.

Futures—future commitments to purchase or deliver money market instruments on a specified future date at a specified price. The instruments are obligations between the Corporation and the organized exchange upon which the contract is traded.

Options—contracts which grant the right, but not the obligation, to purchase a financial asset at a specified price during a specified period.

In any transaction there is always an inherent risk of loss. These risks are classified as (1) credit risks, wherein the counterparty fails to perform an obligation as agreed upon causing the other party to incur a financial loss, or (2) market risks where an exposure exists as a result of changes in foreign exchange rates and/or interest rates.

The Corporation manages its exposure to credit risk by dealing only with financial institutions having original credit ratings of A for terms of three years and under, and AA for terms greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties due to the control procedures in place.

The breakdown of counterparty exposure for derivative financial instruments is as follows. Credit exposure is limited to contracts with a positive fair value.

	1996	1995
	(in millions of dollars)	
AAA	37	51
AA+	19	117
AA	54	1
AA-	58	61
A+	2	116
A	134	81
Total	304	427

Credit risks inherent in the derivative financial instruments, marketable securities and investments have been estimated not to exceed $20 million. Accordingly, an allowance for credit risk of $20 million (1995—$20 million) has been established. This amount is included in accounts payable.

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

Interest rate, currency swap, and foreign exchange contracts entered into by the Corporation with contractual or notional principal amounts outstanding as at December 31, 1996 are listed below.

	Remaining term to maturity				1996	1995
	Under one year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total
	(in millions of dollars)					
Currency swaps	458	1,297	655	274	2,684	2,215
Interest rate swaps	61	1,305	210	938	2,514	2,706
Foreign exchange contracts	1,007				1,007	1,331
Total all swaps	1,526	2,602	865	1,212	6,205	6,252
Fair value of swaps						
Positive	21	83	148	52	304	427
Negative	15	51	24	15	105	65

Swaps that have a positive fair value are those contracts which, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

16. Fair value of financial instruments

The chart below outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is multiplied due to the large number of assumptions used, and in the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimate of the value of financial instruments outlined below do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature. The aggregate of the estimates of the fair value of the financial instruments presented below do not reflect an estimate of the underlying value of the Corporation.

	1996		1995	
BALANCE SHEET ITEMS	Book value	Fair value	Book value	Fair value
	(in millions of dollars)			
Cash and marketable securities				
Available for sale portfolio	110	110	190	190
Investment portfolio	942	935	1,049	1,047
Investments	407	423	239	263
Loans receivable:				
Performing fixed rate	4,174	4,483	3,942	4,261
Performing floating rate	3,530	3,894	3,423	3,706
Impaired	484	484	521	521
Accounts payable	80	80	50	50
Loans payable				
Fixed rate	2,505	2,593	2,775	2,954
Floating rate	5,269	5,269	4,981	4,981

EXPORT DEVELOPMENT CORPORATION—*Concluded*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Concluded*

DERIVATIVE FINANCIAL INSTRUMENTS	1996 Notional	1996 Fair value	1995 Notional	1995 Fair value
		(in millions of dollars)		
Currency swap contracts	2,684	119	2,215	249
Interest rate swap contracts	2,514	89	2,706	115
Foreign exchange contracts	1,007	(9)	1,331	(2)

The fair value of securities with an original maturity of more than one year is based on quoted market prices. For securities with an original maturity of less than one year, the face value has been used as an estimate of fair value.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, US Treasuries for US dollar fixed rate cash flows for example, to which a spread for credit risk is added for each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit.

The estimate of the fair value of fixed rate loans payable and investments uses a discounted cash flow approach with current market rates. Variable rate loans payable and investments reprice frequently and the carrying value approximates the fair value.

The nature of accounts payable is that they have a relatively short duration. Thus the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of the foreign exchange contracts is carrying value. Currency swap contracts and interest rate swap contracts use a discounted cash flow approach.

17. Related party transactions

The Corporation enters into transactions with other Government departments, agencies, and Crown corporations in the normal course of business.

It is Management's opinion that loans to sovereign governments are considered collectible unless they are formally repudiated by the debtors. However, indefinite delays in repayment of principal and interest may have to be accepted.

During 1996, the Corporation received from the Government of Canada $101 million (1995—$374 million) for principal pursuant to debt relief arrangements. Interest earned is unaffected in 1996 in accordance with the adoption of the new accounting standards for impaired loans. For 1995, amounts received for debt relief increased interest earned by $11 million.

18. Canada Account Transactions

Pursuant to the Act, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liablity transactions. These transactions and legislative authorities which underlie them, have come to be known collectively as the "Canada Account". The Board of Directors is only responsible for the management and the administration of the program. Accounts for the program are maintained separately from the Corporation's accounts, and are consolidated annually as at March 31 with the financial statements of the Government of Canada which are reported upon separately by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices approved by the Government of Canada, amounted to $2,899 million at December 31, 1996 (1995—$2,812 million).

The Act allows the Canada Account to have outstanding loans and commitments to foreign borrowers, and liabilities under contracts of insurance and other agreements up to a maximum of $13 billion. The position against this limit, determined in accordance with the requirements of the Act, is $4,165 million (1995—$4,296 million). Reinsurance of $62 million has been deducted from the insurance policies in force.

The Corporation retained $17 million (1995—$16 million) from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions.

FARM CREDIT CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan impairment and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which includes a majority of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis, and the auditors have full and free access to the Audit Committee.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.

Donald W. Black
Chair and Acting Chief Executive Officer

Marie-Josée Bourassa
Vice-President and Controller

Regina, Canada

AUDITOR'S REPORT

TO THE MINISTER OF AGRICULTURE AND AGRI-FOOD

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1997, and the statements of operations and deficit and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an audit opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997, and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 16, 1997

FARM CREDIT CORPORATION—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Cash and temporary investments (Note 4)	241,014	198,946
Accounts receivable and other accrued assets	28,928	29,590
Long-term investments (Note 5)	79,227	61,916
Net loans receivable (Notes 6 and 7)	4,521,604	3,922,554
Real estate acquired in settlement of loans (Note 8)	139,629	153,468
Equipment and leasehold improvements	12,065	5,895
	5,022,467	4,372,369

LIABILITIES	1997	1995
NISA investments held (Note 9)	17,552	
Accounts payable and accrued liabilities	27,373	25,198
Short-term notes (Note 10)	747,667	456,369
Other liabilities and deferred fees (Note 11)	18,273	22,042
Loans payable (Note 12)	3,753,877	3,448,929
	4,564,742	3,952,538
EQUITY		
Contributed capital (Note 1)	1,118,333	1,118,333
Deficit	(660,608)	(698,502)
	457,725	419,831
	5,022,467	4,372,369

The accompanying notes are an integral part of the financial statements.

Approved:

DONALD W. BLACK
Chair and Acting Chief Executive Officer

WARREN ELLIS
Chair, Audit Committee

FARM CREDIT CORPORATION—*Continued*

STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Interest income		
Loans receivable	406,351	357,440
Investment income	13,420	22,044
	419,771	379,484
Interest expense	278,053	274,299
Net interest income	141,718	105,185
Charge for loan impairment (Note 7)	23.986	12,146
Net interest income after charge for loan impairment	117,732	93,039
Lease and real estate income		
Lease and other revenue	20,299	28,033
Operating expenses	2,960	3,524
Interest expense	10,264	13,219
Net lease and real estate income	7,075	11,290
Other income	6,519	4,858
Income before non-interest expenses	131,326	109,187
Administrative expenses	84,104	67,271
Income taxes (Note 14)	6,628	1,546
Net income for the year	40,594	40,370
Deficit at beginning of the year	(698,502)	(734,872)
Dividends (Note 1)	(2,700)	(4,000)
Deficit at end of the year	(660,608)	(698,502)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN CASH POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Operating activities		
Net income for the year	40,594	40,370
Items not involving cash		
Charge for loan impairment	23,986	12,146
Change in accrued interest receivable	6,243	(26,559)
Change in accrued interest payable	(1,058)	69
Other	22,043	(12,455)
Cash provided by operating activities	91,808	13,571
Investing activities		
Long-term investments	(18,042)	40,968
Loans receivable disbursed	(1,342,900)	(1,332,700)
Loans receivable repaid	704,275	850,306
Proceeds from disposal of real estate	13,839	55,300
Other	(9,051)	(6,999)
Cash used in investing activities	(651,879)	(393,125)
Financing activities		
Loans from Canada		220,000
Loans repaid to Canada	(134,014)	(356,089)
Loans from capital markets	808,139	707,546
Loans repaid to capital markets	(378,136)	(204,459)
Change in short-term notes	291,298	(47,366)
Change in NISA investments held	17,552	
Dividends paid	(2,700)	(4,000)
Cash provided by financing activities	602,139	315,632
Increase (decrease) in cash and temporary investments	42,068	(63,922)
Cash and temporary investments, beginning of the year	198,946	262,868
Cash and temporary investments, end of the year	241,014	198,946

The accompanying notes are an integral part of the financial statements.

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation (the "Corporation") was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the Farm Credit Corporation with its Corporate Office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to deliver specific programs of the Government of Canada on a cost-recovery basis and enhance rural Canada by providing specialized and personalized financial services to farming operations, including family farms, and those businesses in rural Canada that are related to farming.

(b) Contributed capital

Contributed capital of the Corporation constitutes capital payments received from the Government of Canada. As at March 31, 1997, the statutory limit is $1,125 million (1996—$1,125 million).

The federal budget of February 18, 1997, announced a $50 million capital injection to the Corporation. These funds, when received, will be credited directly to contributed capital. The capital injection will strengthen the Corporation's capital structure.

(c) Dividends

On May 29, 1996, the Corporation's Board of Directors declared a dividend in the amount of $2.7 million (1996-$4.0 million) which was paid on September 30, 1996 to the Corporation's sole shareholder - the Government of Canada.

(d) Limits on borrowing

The *Farm Credit Corporation Act* restricts the total of direct and contingent liabilities to 12 times the equity of the Corporation. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 1997, the Corporation's total liabilities were 10.0 times the equity of $457.7 million (1996—9.4 times the equity of $419.8 million).

2. Significant accounting policies

(a) Investments

Investments comprise the balance sheet categories of temporary investments and long-term investments. Interest income, gains and losses on disposal, amortization of premiums and discounts and write-downs to market value are reported in investment income.

Temporary investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Temporary investments are carried at cost. However, where the market value has declined significantly, temporary investments are written down to market value.

Long-term investments are acquired primarily for the purposes of asset/liability management and are intended to be held to maturity. Long-term investments are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity.

Included in the long-term investment portfolio are investments purchased to hedge against changes in future borrowing rates. Gains and losses on the disposal of these investments are amortized on a straight-line basis and applied to interest expense over the life of the related funding requirements.

(b) Net loans receivable

Net loans receivable are stated net of unearned income and allowance for loan impairment. Loans are classified as impaired when:

(i) principal or interest is 90 days past due, unless the loan is well secured and in the process of collection, or

(ii) circumstances indicate doubt as to the ultimate collection of principal or interest.

Interest income is recorded on the accrual basis until such time as management determines that a loan be specifically classified as impaired. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. All payments on the loan are credited against the recorded investment in the loan. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as a charge or credit for loan impairment. The loan reverts to accrual status when all charges for loan impairment are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans. Other loan fees are recorded as other income on the same basis as the related costs.

(c) Allowance for loan impairment

The allowance for loan impairment represents management's best estimate of probable credit losses on the loans receivable in light of current conditions. It has a specific and a general component.

Based on a loan-by-loan review, the specific component is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general component, which is prudential in nature, is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, management models historic portfolio migration trends and loss percentages and applies them to loans receivable balances categorized into risk pools. As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting certain agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government programs, international trade negotiations, future commodity prices and climatic conditions, in establishing the general component of the allowance. However, future agricultural and economic conditions are not predictable with certainty and, therefore, actual loan losses may vary from management's estimate.

The allowance is increased by charges for loan impairment and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

(d) Real estate acquired in settlement of loans

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the fair value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

The carrying value of real estate held for sale is adjusted to reflect significant changes in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Gains and losses arising from the disposal of real estate are included as a component of lease and other revenues.

(e) Farm Debt Review process

Amounts received from the Government of Canada on behalf of farmers for concessions granted by the Corporation under the Farm Debt Review process are applied as if they had been received directly from the farmers.

(f) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20%/annum
Computer equipment and software	Straight-line	3 years
Automobiles	Straight-line	4 years
Leasehold improvements	Straight-line	Lease term plus the first renewal option.

(g) Translation of foreign currencies

Loans receivable/payable and interest receivable/payable in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Interest income and expense denominated in foreign currencies are translated into Canadian dollars at the average month-end exchange rates prevailing throughout the year. Exchange gains or losses arising from the translation of foreign denominated debt and interest expense are reported net of the exchange gains and losses on the related currency exchange agreements and are included as a component of interest expense.

(h) Loans payable

Interest settlement amounts for loans with equity-linked interest are estimated using the related index level as at the balance sheet date and included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest expense.

The difference between the ultimate amounts payable (at the initial exchange rates if the loans payable are denominated in a foreign currency) and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

(i) Derivative financial instruments

In order to manage its exposure to currency and interest rate risks, the Corporation uses various types of derivative financial instruments such as currency and interest rate swaps, forward rate agreements and interest rate options. These instruments include contracts designated and effective as hedges as well as asset/liability contracts which alter the Corporation's overall interest rate profile. The Corporation does not use derivative instruments for speculative purposes.

Currency exchange agreements

Amounts receivable or payable under currency exchange agreements are disclosed separately from the related foreign currency denominated loans receivable or debt and are translated into Canadian dollars at rates prevailing on the balance sheet date. The translated amounts are disclosed net of any amounts payable or receivable in Canadian dollars under these contracts. The net balance is reported as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

Currency exchange gains and losses arising from currency exchange agreements are included in current income as a component of interest expense. The cost of these agreements is amortized on a straight-line basis over the life of the contract and the amortization is reflected in interest income or expense. The unamortized balance is included as a component of accounts receivable and other accrued assets or accounts payable and accrued liabilities.

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with net accrued interest receivable or payable recorded as a component of either accounts receivable and other accrued assets or accounts payable accrued liabilities. The cost of the contracts is amortized on a straight-line basis over the lives of the underlying instruments and reported as an adjustment to interest income or expense. Realized gains or losses from interest rate options are deferred and recognized in income over the lives of the hedged positions as an adjustment to income or expense of the hedged items.

(j) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation matches employees' contributions for current or prior service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(k) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees or settlements are reasonably determinable.

(l) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when realized.

3. Change in accounting standard

The Corporation has adopted the new *Canadian Institute of Chartered Accountants Handbook* Section 3860: "Financial Instruments-Disclosure and Presentation" which includes a requirement that financial assets and liabilities be presented on a gross rather than a net basis unless an entity:

(a) has a legally enforceable right to offset the amounts; and

(b) intends to settle on a net basis.

Loans payable in foreign currencies were previously reported net of any currency conversion agreements. Effective in 1997 the Corporation reports these items on a gross basis. Prior period comparative figures have been restated to show these items on a gross basis increasing both assets and liabilities by $0.95 million. The implementation of this new standard has not changed the Corporation's measurement of net income.

4. Cash and temporary investments

	Effective interest rate	1997	1996
	%	(in thousands of dollars)	
Cash (overdraft)		15,563	(6,250)
Temporary investments	3.11-5.32	223,831	203,814
Accrued interest		1,620	1,382
		241,014	198,946
Temporary investments consist of instruments with maturities of less than one year, issued by:			
The Government of Canada and its agencies and Crowns		145,139	106,181
Other		78,692	97,633
		223,831	203,814

Other investments consist of short-term instruments issued by the governments of the provinces of Canada, or short-term instruments issued by institutions with credit ratings of R1-L or higher. As at March 31, 1997, the largest total investment, in any one institution was $25.0 million (1996—$24.8 million) and the Corporation held investments in four separate institutions and provinces (1996—six institutions and provinces).

5. Long-term investments

	Stated interest rate	1997	1996
	%	(in thousands of dollars)	
Amounts due within			
1 year	7.50-10.75	41,500	
1-5 years	6.50	15,000	56,500
Over 5 years	7.50-9.00	18,500	3,500
		75,000	60,000
Unamortized premium and discount		3,150	1,278
Accrued interest		1,077	638
		79,227	61,916

Long-term investments consist entirely of Government of Canada bonds.

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

6. Net loans receivable

	Stated interest rate	1997	1996
	%	(in thousands of dollars)	
Principal amounts due secured by			
—Mortgages	4.25-15.25	4,026,951	3,680,722
—Chattels	5.25-14.75	408,451	160,092
—Notes	4.75-14.63	156,250	130,454
		4,591,652	3,971,268
Accrued interest and fees, net of payments held		70,090	61,597
		4,661,742	4,032,865
Recorded investment in impaired loans secured by			
—Mortgages		18,851	31,726
—Chattels		3,840	1,134
—Notes		2,571	529
		25,262	33,389
Less: allowance for loan impairment (Note 7)		(165,400)	(143,700)
		4,521,604	3,922,554
Principal amounts (excluding impaired loans) due within			
1 year		1,515,245	1,119,897
1-5 years		2,571,325	2,227,881
Over 5 years		505,082	623,490
		4,591,652	3,971,268

Management estimates that annually, over the next three years, between one and five per cent (1996—one and five per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 1997, $2.3 million (1996—$0.0 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

As at March 31, 1997, loans to farmers and agribusinesses approved but not disbursed amounted to $173 million (1996—$177 million). These loans were approved at an average interest rate of 7.41% and do not form part of the net loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by June 30, 1997.

7. Allowance for loan impairment

	1997	1996
	(in thousands of dollars)	
Balance at beginning of the year	143,700	136,157
Write-offs, net of recoveries	(2,286)	(4,603)
Charge for loan impairment	23,986	12,146
Balance at end of the year	165,400	143,700
Specific allowance	7,800	8,000
General allowance	157,600	135,700
Balance at end of the year	165,400	143,700

As at March 31, 1997, the total recorded investment in loans receivable against which a specific allowance has been identified was $25.3 million (1996—$33.4 million). The general allowance was established against the remaining $4,661.7 million (1996—$4,032.9 million) investment in loans receivable.

8. Real estate acquired in settlement of loans

	1997	1996
	(in thousands of dollars)	
Balance at beginning of the year	153,468	196,651
Acquisitions	3,913	7,958
Disposals	(17,752)	(42,023)
WGTA reduction		(9,118)
Balance at end of the year	139,629	153,468

Real estate under long-term lease maturing:

within 1 year	195	1,360
from 1-2 years	297	61
from 2-3 years	85,110	344
from 3-4 years	48,327	98,039
from 4-5 years	1,521	52,642
in 5 years and beyond	254	1,204
	135,704	153,650
Real estate held for sale	3,925	8,936
WGTA reduction		(9,118)
	139,629	153,468

Real estate represents farm property acquired in the process of administering loans receivable.

Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Leases reprice annually.

Payments received from the elimination of the *Western Grain Transportation Act* (*WGTA*) subsidy and retained by the Corporation were recorded in 1996 as a reduction of the carrying value of the associated property (Note 16).

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

Future expected lease receipts, using current lease rates, receivable within:

	(in thousands of dollars)
—1 year	13,099
—1-5 years	24,897
	37,996

9. NISA investments held

	Stated interest rate	1997	1996
	%	(in thousands of dollars)	
Net Income Stabilization Account investments			
Variable rate	4.00	15,009	
Term rate	2.75-6.00	2,369	
		17,378	
Accrued interest		174	
		17,552	

Subject to the terms and conditions of the "Federal/Provincial Agreement Establishing the Net Income Stabilization Account (NISA) Program", the Corporation may be required to refund at any time amounts eligible for withdrawal under the terms of the NISA program.

10. Short-term notes

	Effective interest rate	1997	1996
	%	(in thousands of dollars)	
Short-term notes payable within one year	2.80-4.19	742,384	451,737
Accrued interest		5,283	4,632
		747,667	456,369

11. Other liabilities and deferred fees

	1997	1996
	(in thousands of dollars)	
Other liabilities and deferred fees consist of:		
Agri-Land investment fund	3,731	4,754
Downpayments on real estate sales	626	2,802
Provision for employee termination benefits	5,500	4,905
Net currency swap payable	624	4,693
Deferred loan fees	7,792	4,888
	18,273	22,042

The Corporation may, through its equity-building lease program, lease real estate acquired in settlement of loans back to the former owner ("the lessee"). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Agri-Land investment fund of the Corporation. Funds held in the Agri-Land investment fund earn interest at 3.25% (1996—5.25%). At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

12. Loans payable

	Stated interest rate	1997	1996
	%	(in thousands of dollars)	
Loans from Canada, secured by notes	6.29-10.21	1,981,011	2,115,025
Loans from capital markets, secured by notes payable in:			
Canadian dollars	3.00-9.00	1,458,639	896,273
US dollars ($75,000,000)	5.21	103,773	373,517
New Zealand dollars ($100 000 000)	8.00	95,781	
Payable in Canadian dollars, with interest payments linked to:			
the Hong Kong Exchange index		12,000	
the Euro Top 100 index		37,000	
		3,688,204	3,384,815
Accrued interest		65,673	64,114
		3,753,877	3,448,929

Loans with equity-linked interest payments do not provide periodic interest payments but, upon settlement, provide the purchaser with a single payment based on changes in the underlying equity index. The Corporation has entered into swap agreements which offset all equity-based interest payments in exchange for periodic payments calculated at an agreed interest rate.

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

Loan payments denominated in foreign currencies have been fully swapped into Canadian dollars.

Amounts due :

	1997	1996
	(in thousands of dollars)	
within 1 year	764,471	507,709
from 1-2 years	984,758	680,964
from 2-3 years	515,614	715,237
from 3-4 years	521,485	325,802
from 4-5 years	271,837	435,130
in five years and beyond	630,039	719,973
	3,688,204	3,384,815
Accrued interest	65,673	64,114
	3,753,877	3,448,929

Included in loans payable are $194 million (1995—$20 million) of loans extendable beyond the above due dates at the Corporation's options.

The Corporation's borrowings (short-term notes and loans payable) are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the Corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

13. Derivative financial instruments

The Corporation uses derivative financial instruments with off-balance sheet risk to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Currency and interest rate swaps are used to offset foreign currency risk on foreign dollar borrowings and manage interest rate risk. Interest rate options are purchased to hedge options embedded in the Corporation's loan products as well as to reduce risk arising from loan rate guarantees.

Credit risk is the risk of financial loss occurring as a result of a default by a counterparty on its obligation to the Corporation. Replacement cost represents the mark to market value of outstanding derivative contracts. A positive replacement cost indicates the Corporation's exposure to derivative credit risk. The Corporation manages its exposure to credit risk by dealing only with financial institutions having very high credit ratings. Additionally, ISDA documents have downgrade and collateral provisions to reduce counterparty credit risk and, as a result, the Corporation does not anticipate any significant nonperformance by counterparties. The largest notional amount contracted with any institution as at March 31, 1997, was $435.3 million (1996—$263.1 million) and the largest replacement cost of contracts with any institution as at March 31, 1997, was $1.6 million (1996—$3.0 million).

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of financial instruments outstanding as at March 31, 1997, were as follows:

1997—Remaining term to maturity		Within 1 year	1 to 5 years	Total	Replacement cost
			(in thousands of dollars)		
Currency swaps					
Receive	*Pay*				
CDN fixed	USD fixed		5,000	5,000	(69)
CDN fixed	USD float		2,250	2,250	(69)
USD fixed	CDN fixed		103,050	103,050	(3,603)
NZD fixed	CDN fixed		95,000	95,000	2,139
Interest swaps					
Receive	*Pay*				
Floating	Fixed		70,000	70,000	(2,019)
Fixed	Floating	55,000	475,000	530,000	2,367
Equity-indexed	Floating		49,000	49,000	(2,415)
Purchased options					
Interest rate options		470,000	10,000	480,000	1,588
Sold options					
Interest rate options			69,000	69,000	(1,814)
Total		525,000	878,300	1,403,300	(3,895)
1996—Remaining term to maturity					
Currency swaps					
Receive	*Pay*				
USD fixed	CDN fixed	137,310	103,050	240,360	(5,349)
USD float	CDN fixed	138,000		138,000	(6,908)
USD fixed	USD float	135,900		135,900	2,291
Interest swaps					
Receive	*Pay*				
Floating	Fixed		25,000	25,000	(974)
Fixed	Floating		135,000	135,000	347
Purchased options					
Interest rate options		360,000	20,000	380,000	953
Total		771,210	283,050	1,054,260	(9,640)

Included in derivative financial instruments are $179 million of interest rate swap and purchased option contracts extendable beyond the above due dates at the Corporation's option.

14. Income taxes

(a) Timing differences of approximately $166 million are available to the Corporation as at March 31, 1997. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the charge for loan impairment charged to operations and the amount claimed for income tax purposes.

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $392 million and expires on the dates indicated:

	(in thousands of dollars)
March 31, 1999	179,000
2001	143,000
2003	70,000
	392,000

(b) Income taxes payable by the Corporation represent capital taxes under Part VI and I.3 of the *Income Tax Act*. Part VI tax - a tax on the capital of financial institutions - is applicable to financial institutions with capital in excess of $200 million and can be reduced by Part I tax or surtaxes payable. Part I.3 tax is applicable to corporations with taxable capital in excess of $10 million and may be reduced by current or future Part I surtaxes payable.

15. Operating leases

Future minimum payments by fiscal year on operating leases for premises, with initial non-cancellable lease terms in excess of one year, are due as follows:

	(in thousands of dollars)
within 1 year	5,488
from 1-2 years	4,978
from 2-3 years	4,518
from 3-4 years	3,719
from 4-5 years	2,506
in five years and beyond	3,182
	24,391

These leases generally provide for payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

16. Government programs

Net Income Stabilization Accounts

In March 1996, the Corporation became an eligible financial institution, accepting and administering Fund 1 Net Income Stabilization Accounts (NISA). In November 1996, the Minister of Agriculture and Agri-Food designated the Corporation as the default financial institution for the NISA program. As the designated default financial institution, all Fund 1 NISA Accounts not administered by one of the 17 eligible financial institutions (in addition to the Corporation) as of June 1, 1997, will be transferred from the NISA Administration's Consolidated Revenue Fund, to the Corporation. The actual transfer of funds is scheduled to occur in August 1997.

Commodity-Based Loans

Net loans receivable as at March 31, 1997, included $100 million (1996—$241 million) of loans under the Commodity-Based Loans (CBL) program. In 1997, the Corporation received $21.5 million (1996—$9.9 million) from Agriculture and Agri-Food Canada as compensation for the early retirement of CBL loans and concessions made under the program. Concessions relate to preferential interest rates provided to borrowers under the program and cease when the related loans are retired. The program has not been available for new lending since 1989.

Western Grain Transportation Act

During the year, the Corporation received a $16.7 million transition payment as a result of the elimination of the *Western Grain Transportation Act* (*WGTA*). The Corporation forwarded $3.2 million to clients who purchased land from the Corporation after February 27, 1995 and before January 1, 1996. An additional $3.1 million was transferred to clients who were former owner/tenants and leased land from the Corporation during 1995 and 1996. No further payments are expected under this program.

Farm Debt Review Act

During the year, the Minister of Agriculture and Agri-Food was authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the *Farm Debt Review Act*. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments.

Since the inception of the Farm Debt Review process, the Corporation has offered $279 million in concessions and billed $278 million to the Government of Canada, of which $2.6 million was billed in the current year. The committed difference of $1 million will become due and be received over the next two years as farmers meet their commitments and thereby realize the benefits of the concessions.

Government funding for new concessions under the *Farm Debt Review Act* ceased effective March 31, 1994.

17. Guarantees and letters of credit

The Corporation has issued guarantees and letters of credit on behalf of its clients which in total do not exceed $0.5 million as at March 31, 1997, (1996—$0.2 million). In the event of a call on the above commitments, the Corporation has recourse against the clients.

18. Interest rate risk

Changes in market interest rates have a direct impact on the contractually determined cash flows of floating rate financial instruments and on the fair value of fixed-rate financial instruments.

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the Corporation's significant financial instruments by the earlier of their contractual repricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing on the interest term expiry date.

Floating rate loan receivables are linked to prime and reprice with changes in prime; interest term maturity date is used to determine the remaining term for floating rate loan receivables.

The calculated yield for loans payable in foreign currencies is disclosed net of currency swaps which are used to convert borrowings to Canadian dollar obligations.

1997—Remaining term to repricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	No fixed term	Total carrying value
			(in thousands of dollars)		
Temporary investments	225,451				225,451
Average yield	3.74%				3.74%
Long-term investments	42,740	14,999	21,488		79,227
Average yield	6.76%	6.95%	6.58%		6.76%
Loans receivable [1]					
Fixed-rate CDN	1,002,996	2,548,602	1,088,071		4,639,669
Average yield	7.22%	8.56%	9.38%		8.46%
Fixed-rate USD			2,329		2,329
Average yield			7.38%		7.38%
Floating rate CDN	19,744				19,744
Average yield	5.38%				5.38%
NISA investments [2]					
Fixed-rate	398	2,005			2,403
Average yield	3.29%	4.73%			4.49%
Floating rate				15,149	15,149
Average yield				4.00%	4.00%
Short-term notes	747,667				747,667
Average yield	3.13%				3.13%
Loans payable					
CDN	781,865	2,135,772	632,189		3,549,826
Average yield	6.98%	7.28%	8.25%		7.39%
USD		104,118			104,118
Average yield		5.90%			5.90%
NZD		99,933			99,933
Average yield		5.93%			5.93%
1996—Remaining term to repricing or maturity date					
Temporary investments	205,196				205,196
Average yield	5.91%				5.91%
Long-term investments		58,563	3,353		61,916
Average yield		6.81%	8.81%		6.93%
Loans receivable [1]					
Fixed-rate CDN	693,548	1,991,096	1,330,705		4,015,349
Average yield	8.93%	9.03%	9.67%		9.22%
Floating rate CDN	17,516				17,516
Average yield	7.57%				7.57%
Short-term notes	456,369				456,369
Average yield	5.80%				5.80%
Loans payable					
CDN	194,166	2,113,767	755,407		3,063,340
Average yield	8.39%	7.48%	8.57%		7.81%
USD	282,956	102,633			385,589
Average yield	9.06%	5.92%			8.20%

Note: [1] Loans receivable excludes impaired loans.
[2] Although certain of these contributions have fixed-interest terms, the Corporation may be required to refund at any time amounts eligible for withdrawal under the terms of the NISA program.

FARM CREDIT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS—*Concluded*

19. Fair values

The following table summarizes the estimated fair value of the Corporation's financial instruments.

	1997		1996	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(in thousands of dollars)			
ASSETS				
Cash and temporary investments	241,014	240,972	198,946	199,168
Accounts receivable and other accrued assets	28,928	28,928	29,590	29,590
Long-term investments	79,227	79,202	61,916	62,278
Net loans receivable	4,521,604	4,600,266	3,922,554	3,963,329
LIABILITIES				
NISA investments held	17,552	17,552		
Accounts payable and accrued liabilities	27,373	27,373	25,198	25,198
Short-term notes	747,667	746,669	456,369	456,939
Loans payable	3,753,877	3,920,478	3,448,929	3,523,701

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash, accounts receivable and other accrued assets, and accounts payable and accrued liabilities.

Fair value for long-term investments is determined by reference to quoted market prices.

The estimated fair value of NISA investments held is equal to the amount payable upon withdrawal.

Quoted market values are not available for a significant number of the Corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

Estimated fair value for temporary investments, short-term notes, and loans payable is calculated by discounting contractual cash flows at interest rates currently prevailing for equivalent terms to maturity.

The estimated fair value for loans receivable is determined by discounting expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due date) at market interest rates for loans with similar credit risks. The allowance for loan impairment is valued at its balance sheet carrying value.

Note: The fair value (replacement cost) of derivative financial instruments is disclosed in Note 13.

20. Comparative figures

Certain 1996 comparative figures have been reclassified to conform with the presentation adopted in 1997.

FRESHWATER FISH MARKETING CORPORATION

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Freshwater Fish Marketing Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements, where appropriate. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains and relies on financial and management control systems and practices which are designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices are designed to ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and the adherence to the Corporation's policies and statutory requirements.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board meets regularly with management and the auditors, who have full and free access to the Board.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.

Tom Dunn
President

Gabriella Bradics
Controller

Winnipeg, Canada

AUDITOR'S REPORT

TO THE MINISTER OF FISHERIES AND OCEANS

I have audited the balance sheet of the Freshwater Fish Marketing Corporation as at April 30, 1997 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at April 30, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Freshwater Fish Marketing Act* and the by-Laws of the Corporation.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
July 25, 1997

FRESHWATER FISH MARKETING CORPORATION—*Continued*

BALANCE SHEET AS AT APRIL 30, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Accounts receivable (Notes 3 and 5)	4,951	5,020
Inventories (Note 4)	8,115	7,807
Prepaid expenses	81	82
	13,147	12,909
Loan receivable (Note 5)	21	136
Capital assets (Note 6)	6,970	7,539
	20,138	20,584

LIABILITIES	1997	1996
Current		
Bank indebtedness (Note 7)	57	1,381
Accounts payable and accrued liabilities (Note 8)	2,724	5,377
Loans payable (Note 9)	13,204	9,673
	15,985	16,431
RETAINED EARNINGS		
Retained earnings	4,153	4,153
	20,138	20,584

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

SAM MURDOCH
Director

WILLIAM MONKMAN
Director

FRESHWATER FISH MARKETING CORPORATION—*Continued*

STATEMENT OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED APRIL 30, 1997
(in thousands of dollars)

	1997	1996
Operations		
Sales (Note 10)		
Export	34,840	37,235
Domestic	8,164	9,881
	43,004	47,116
Cost of sales		
Opening inventory of finished fish products	6,703	3,546
Add: fish purchases and processing expenses		
Initial payments to fishers (Note 2)	24,993	29,708
Salaries, wages and benefits	5,041	5,036
Packing allowances and agency operating costs	4,101	4,225
Packaging and storage	2,284	2,333
Amortization of production assets	1,219	1,033
Utilities and property taxes	1,179	970
Repairs and maintenance	865	686
Fishers' E.I. premiums	480	594
Other	(53)	(74)
	46,812	48,057
Less: Ending inventory of finished fish products	(7,019)	(6,703)
	39,793	41,354
Gross profit on operations	3,211	5,762
Marketing and administrative expenses		
Salaries and benefits	1,122	1,099
Interest (Note 11)	800	681
Data processing, office and professional services	432	498
Advertising and promotion	181	249
Amortization of administration assets	369	193
Bad debts	8	116
Meetings fees and expenses	57	71
Other	62	107
	3,031	3,014
Income before provision for final payments to fishers	180	2,748
Provision for final payments to fishers (Notes 2 and 8)	180	2,748
Net income for the year (Note 12)		
Retained earnings at beginning of the year	4,153	4,153
Retained earnings at end of the year	4,153	4,153

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED APRIL 30, 1997
(in thousands of dollars)

	1997	1996
Cash provided by (used for)		
Operating activities		
Net income for the year		
Add (deduct) items not affecting cash		
Amortization	1,588	1,226
Gain on sale of capital assets	(118)	(57)
Net changes in non-cash working capital balances relating to operations	(321)	(2,602)
Cash provided by (used for) operations	1,149	(1,433)
Investing activities		
Additions to capital assets	(1,185)	(1,347)
Decrease in loan receivable	113	211
Proceeds on sale of capital assets	284	270
Cash used for investing activities	(788)	(866)
Financing activities		
Increase in loans payable	3,531	2,699
Cash provided by financing activities	3,531	2,699
Decrease in provision for final payments to fishers	(2,568)	(1,770)
Increase (decrease) in cash during the year	1,324	(1,370)
Bank indebtedness at beginning of year	(1,381)	(11)
Bank indebtedness at end of year	(57)	(1,381)

The accompanying notes are an integral part of the financial statements.

FRESHWATER FISH MARKETING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1997

1. Authority, operations and objectives

The Corporation was established in 1969 by the *Freshwater Fish Marketing Act* and with the participation of each of the provinces and territory it operates in, for the purpose of marketing and trading in fish, fish products and fish by-products in and outisde of Canada. Participation of the provinces of Manitoba, Saskatchewan, Alberta and Ontario and the Norhwest Territories was established by agreement with the Government of Canada.

The Corporation is an agent Crown corporation named in Schedule III, Part I of the *Financial Administration Act*. The Corporation is required to conduct its operations on a self-sustaining basis without appropriations from Parliament and the total borrowings of the Corporation may not exceed $30 million.

The Corporation has the exclusive right to trade and market the products of the commercial fishery on an interprovincial and export basis, and it exercises that right with the objectives of marketing fish in an orderly manner, maximizing returns to fishers, and promoting international markets and increasing interprovincial and export trade in fish.

2. Significant accounting policies

Inventories

Finished fish products are recorded at the actual cost of fish purchases and the average actual cost for direct labour and overhead directly related to processing for the year. At year end, finished fish products are valued at the lower of cost and net realizable value. Packaging material and supplies are valued at the lower of cost and replacement cost.

Amortization

Amortization is based on the estimated useful lives of the assets using the following methods and annual rates:

Buildings	—Lake stations	Straight-line	5-10%
	—Plants	Straight-line	2 1/2%
Equipment	—Machinery and office equipment	Declining balance	10-40%
	—Automotive	Declining balance	30%
Fresh fish delivery tubs		Straight-line	10%
Vessels		Straight-line	6 2/3%

The costs for systems under development and plant assets being upgraded or purchased, but that are not yet operational, are charged to construction in progress. When the assets become operational, the cost is transferred to the appropriate capital asset classification and amortized accordingly.

Payments to fishers and retained earnings

The Corporation purchases fish at initial prices established by the Board of Directors based upon operational forecasts prepared by the Corporation and the cost of such purchases is included in the cost of sales. Final payments to fishers, if any, are approved by the Board of Directors after the end of the year, based on the results of operations for the year, and are excluded from the cost of sales. The final payments are made in respect of products purchased during the year and therefore are charged to operations of the current year. After the final payments are established, any remaining income for the year is recorded as retained earnings.

Foreign currency translation

Amounts receivable and payable denominated in foreign currency are translated into Canadian dollars at the year-end exchange rate. Transactions in foreign currency during the year are translated at the rate in effect at the time of the transactions. Foreign exchange gains and losses are included in interest expense.

Pension plan

Employees of the Corporation participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the plan. The Corporation's contributions are expensed on a current year basis, and represent the total pension obligations of the Corporation. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Use of Estimates

Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and judgments that affect the amounts and disclosures reported in the financial statements. The more significant areas requiring the use of management estimates are related to the allowance for doubtful accounts and the provision to reduce all slow moving or unusable finished fish inventories to their estimated net realizable value. Actual results could differ from those estimates, although management does not believe that any differences would materially affect the Corporation's financial position or reported results of its operations.

3. Accounts receivable

	1997	1996
	(in thousands of dollars)	
Trade	4,604	4,534
Other	263	404
Current portion of loan receivable	84	82
	4,951	5,020

4. Inventories

	1997	1996
	(in thousands of dollars)	
Finished fish products	7,019	6,703
Packaging material and supplies	1,096	1,104
	8,115	7,807

5. Loan receivable

The loan receivable is denominated in US dollars ($75,000), secured by various capital assets, repayable in monthly principal instalments of $5,000 US plus interest and bears interest at 1 1/2% above the bank's US base rate.

FRESHWATER FISH MARKETING CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1997—*Concluded*

6. Capital assets

	1997			1996
	Cost	Accumulated amortization	Net book value	Net book value
	(in thousands of dollars)			
Land	258		258	258
Buildings	6,825	4,071	2,754	2,821
Equipment	15,223	12,025	3,198	3,487
Fresh fish delivery tubs	714	283	431	475
Vessels	342	174	168	112
Construction in progress	161		161	386
	23,523	16,553	6,970	7,539

7. Bank indebtedness

The operating loan is due on demand, unsecured and bears interest at the bank's prime lending rate payable monthly in arrears.

8. Accounts payable and accrued liabilities

	1997	1996
	(in thousands of dollars)	
Trade	1,442	1,735
Other	1,102	894
Provision for final payments to fishers	180	2,748
	2,724	5,377

9. Loans payable

	1997	1996
	(in thousands of dollars)	
Demand loans	112	225
Promissory notes	5,592	5,448
Bankers acceptances	7,500	4,000
	13,204	9,673

The demand loan is denominated in US dollars ($80,000), unsecured, repayable in monthly principal instalments of $5,000 US plus interest and bears interest at the bank's US base rate.

The promissory note is denominated in US dollars ($4,000,000), unsecured, repayable in US dollars, bears interest at 5.9875% (5.7375% in 1996)and matures on May 12, 1997.

The bankers acceptances are unsecured, bear interest from 3.5% to 3.63% (5.76% in 1996) and mature on May 6 to May 29, 1997.

10. Sales commissions

During the year, the Corporation paid commissions of $603,521 (1996—$670,103) to sales agents, which were netted against sales. Included in that amount are $532,982 (1996—$594,308) of commissions paid to foreign sales agents.

11. Interest expense

	1997	1996
	(in thousands of dollars)	
Interest on loans	668	617
Loss (gain) on foreign exchange	102	(17)
Interest expense	30	81
	800	681

12. Income taxes

The Corporation is eligible to deduct for tax purposes a portion of its capital cost allowance, and accordingly has no taxable income for the year. At April 30,1997 the estimate of the excess of undepreciated capital cost over net book value of capital assets amounted to $667,000 (1996—$1,276,000) which can be used to reduce future years' taxable income.

13. Fair value of financial instruments

Accounts and loan receivable, bank indebtedness, accounts payable and accrued liabilities and loans payable are valued at their carrying values included on the balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the financial instruments.

14. Comparative figures

Certain 1996 comparative figures have been reclassified to reflect the presentation adopted in 1997.

GREAT LAKES PILOTAGE AUTHORITY, LTD.

MANAGEMENT REPORT

The Great Lakes Pilotage Authority, Ltd. management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the annual report. This responsibility includes the selection of appropriate accounting principles and the exercise of careful judgement in establishing reasonable and accurate estimates in accordance with generally accepted accounting principles applied on a consistent basis and as appropriate in the circumstances. Financial information shown elsewhere in this annual report is consistent with that contained in the financial statements.

The Authority's policy is to maintain systems of internal accounting and administrative controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the company assets are adequately accounted for and safeguarded. The Board of Directors which is also the Audit Committee is comprised of Directors who are not employees of the Authority except for the two pilot Board members. The Directors oversee the company's systems of internal accounting and administration control.

The external auditor, the Auditor General of Canada, is appointed under the *Pilotage Act* as the Auditor and has audited the financial statements according to generally accepted auditing standards. His report outlines the nature of the audit and expresses his opinion on the financial statements of the company.

R. G. Armstrong
Chairman & Chief Executive Officer

R. F. Lemire
Secretary/Treasurer

Cornwall, Canada

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of Great Lakes Pilotage Authority, Ltd. as at December 31, 1996 and the statements of operations, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Authority.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
January 29, 1997

GREAT LAKES PILOTAGE AUTHORITY, LTD.—*Continued*

BALANCE SHEET AS AT DECEMBER 31, 1996

ASSETS	1996	1995
	$	$
Current		
Cash and short-term deposits (Note 3)	5,378,459	3,211,272
Accounts receivable	2,601,714	2,248,205
	7,980,173	5,459,477
Segregated investments (Note 3)	2,450,842	2,757,491
Capital assets (Note 4)	58,096	71,752
	10,489,111	8,288,720

LIABILITIES	1996	1995
	$	$
Current		
Accrued salaries and benefits	3,727,838	2,527,740
Other accounts payable and accrued charges	229,115	265,747
Accrued employee termination benefits	236,366	116,588
	4,193,319	2,910,075
Long-term		
Accrued employee termination benefits	2,278,244	2,376,833
	6,471,563	5,286,908
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—50 shares		
Issued and fully paid—15 shares	1,500	1,500
Contributed capital	82,074	82,074
Retained earnings	3,933,974	2,918,238
	4,017,548	3,001,812
	10,489,111	8,288,720

Commitments (Note 5).

Approved by the Board:

R. G. ARMSTRONG
Director

J. L. McCARTNEY
Director

GREAT LAKES PILOTAGE AUTHORITY, LTD.—*Continued*

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Balance, beginning of the year	2,918,238	1,576,276
Net profit for the year	1,015,736	1,341,962
Balance, end of the year	3,933,974	2,918,238

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Revenues		
Pilotage charges	12,329,885	10,900,568
Interest and other income	329,397	323,997
Dispatching and pilot boat income	75,102	70,105
Life insurance experience (loss) gain	(75,000)	23,101
	12,659,384	11,317,771
Expenses		
Pilots' salaries and benefits	8,681,799	7,059,243
Transportation and travel	946,183	817,167
Operation staff salaries and benefits	591,695	698,154
Pilot boat services (Note 6)	382,229	427,786
Administration staff salaries and benefits	331,224	341,647
Employee termination benefits	229,112	148,791
Professional and special services	132,797	135,203
Utilities, materials and supplies	86,133	56,296
Communications	70,851	68,632
Rentals	49,460	50,415
Purchased dispatching services	43,087	42,838
Retired employee benefits	35,295	49,080
Amortization	25,984	24,682
Repairs and maintenance	21,369	15,508
Pilot training costs	16,430	17,867
Retiring incentives		22,500
	11,643,648	9,975,809
Net profit for the year	1,015,736	1,341,962

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Cash provided by (used in)		
Operating activities		
Net profit for the year	1,015,736	1,341,962
Items not requiring cash		
Employee termination benefits accrual	229,112	148,791
Amortization	25,984	24,682
Net change in working capital components other than cash and short-term deposits	809,957	(323,786)
Employee termination benefits payments	(207,923)	(280,782)
	1,872,866	910,867
Investing activities		
Funding of termination benefits (Note 3)	306,649	(2,757,491)
Increase in capital assets	(12,328)	(51,228)
	294,321	(2,808,719)
Increase (decrease) in cash	2,167,187	(1,897,852)
Cash and short-term deposits, beginning of year	3,211,272	5,109,124
Cash and short-term deposits, end of year	5,378,459	3,211,272

GREAT LAKES PILOTAGE AUTHORITY, LTD.—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

1. Authority and objectives

The Great Lakes Pilotage Authority, Ltd. was established in February 1972 pursuant to the *Pilotage Act*, incorporated as a limited company in May 1972, and is continued under the *Canada Business Corporations Act*. Pursuant to the *Financial Administration Act*, the Authority is a Crown corporation listed in Schedule III Part I thereto. The Authority is a subsidiary of the St. Lawrence Seaway Authority but is deemed to be a parent corporation within the meaning of the *Financial Administration Act*.

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that the pilotage tariffs shall be fair, reasonable and sufficient and, together with any revenue from other sources, shall permit the Authority to operate on a self-sustaining financial basis.

The Authority is exempt from any income taxes.

2. Significant accounting policies

Parliamentary appropriations

Parliamentary appropriations received to finance the cash deficiency are recorded in the year in which they are voted by Parliament. Any portion of the appropriations pertaining to operating expenditures requiring an outlay of funds is reflected in the statement of retained earnings. Any portion of the appropriations pertaining to the acquisition of capital assets is recorded as contributed capital. However, the Authority did not receive any appropriations in both fiscal year 1996 and 1995.

Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Furniture and equipment	5 to 10 years

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid. The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees. The current liability reflects the accrued termination benefits of only those employees who have indicated their intention to terminate their employment within the coming year.

Employee life insurance plan

The Authority provides a life insurance plan for its employees. Surpluses and deficits from the plan are included in the Statement of Operations in the year in which they are determined.

Retired employee benefits

The Authority contributes toward medical benefits and life insurance for those retired employees who elect for such coverage. The expense is recorded in the year in which it is incurred.

3. Short-term deposits and segregated investments

The Authority invests in short-term deposits, treasury bills, and provincial and federal bonds. As at December 31, 1996, these investments yield between 2.50% and 5.83% (5.25% and 8.35% in 1995). The term of maturity of these varies between 1997 and 1999 and the fair market value of all these investments as at December 31, 1996 approximates the net book value.

The Authority sets aside certain of these investments, in order to provide for the funding of future employee termination benefits. Those investments are presented as segregated investments:

	1996	1995
	$	$
Investment Certificates and Bonds with maturity dates in 1998 & 1999 (1995: maturity date 1996)	2,450,842	2,757,491

GREAT LAKES PILOTAGE AUTHORITY, LTD.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996—*Concluded*

4. Capital assets

	1996			1995		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	$	$	$	$	$	$
Buildings	63,642	63,642		63,642	63,327	315
Furniture and equipment	248,463	190,367	58,096	236,135	164,698	71,437
	312,105	254,009	58,096	299,777	228,025	71,752

5. Commitments

The Authority has a lease agreement with the St. Lawrence Seaway Authority for the rental of office space. Future minimum rental payments are:

	$
1997	40,569
1998	41,779
1999	3,490
	85,838

In addition, the Authority has contract commitments of approximately $250,000 for the land transportation services for the next year. Tenders have also been requested for some of the pilot boat services for the next two years. Expenditures for the services being tendered were approximately $330,000 in 1996.

6. Dispatching and pilot boat services to U.S. District No. 1 pilots

The Authority provides without charge all dispatching services and pilot boat services in Port Weller to the U.S. District No. 1 pilots and the U.S. Pilots' Association provides without charge pilot boat services for the Authority at Cape Vincent, New York.

7. Related party transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.

HALIFAX PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID ANDERSON, P.C., M.P.
MINISTER OF TRANSPORT

We have audited the balance sheet of Halifax Port Corporation as at December 31, 1996, and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996, and the results of operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act*, and the by-laws of the Corporation.

Doane Raymond
Chartered Accountants

Halifax, Canada
January 24, 1997

BALANCE SHEET AS AT DECEMBER 31, 1996

ASSETS	1996	1995
	$	$
Current		
Cash	112,052	295,703
Investments (Note 3)	11,595,477	9,411,942
Accounts receivable	3,365,886	2,699,107
Grants in lieu of municipal taxes	96,645	122,623
Materials and supplies	49,983	55,518
	15,220,043	12,584,893
Accounts receivable	132,392	164,210
Property and equipment (Note 4)	59,342,982	56,626,424
	74,695,417	69,375,527

LIABILITIES	1996	1995
	$	$
Current		
Accounts payable and accrued liabilities	5,128,615	2,776,045
Deferred revenues	600,744	570,359
	5,729,359	3,346,404
Accrued employee benefits	723,888	666,783
	6,453,247	4,013,187
EQUITY		
Contributed capital	50,856,865	50,856,865
Surplus	17,385,305	14,505,475
	68,242,170	65,362,340
	74,695,417	69,375,527

Commitments (Note 5).

On behalf of the Board:

MERVYN C. RUSSELL
Chairman

DAVID F. BELLEFONTAINE
President and Chief Executive Officer

HALIFAX PORT CORPORATION—*Continued*

STATEMENTS OF EARNINGS AND SURPLUS
YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Revenue from operations	13,151,952	12,717,037
Operating and administrative expenses	7,453,770	8,039,970
Depreciation	2,569,233	2,557,231
Grants in lieu of municipal taxes	926,051	966,685
	10,949,054	11,563,886
Earnings from operations	2,202,898	1,153,151
Investment income	519,379	620,087
Gain (loss) on disposal of fixed assets	336,130	(11,316)
	855,509	608,771
Net earnings	3,058,407	1,761,922
Surplus, beginning of year	14,505,475	12,743,553
Net earnings	3,058,407	1,761,922
Dividends	(178,577)	
Surplus, end of year	17,385,305	14,505,475

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Cash derived from (applied to)		
Operating		
Net earnings	3,058,407	1,761,922
Depreciation	2,569,233	2,557,231
Other	(279,020)	13,791
	5,348,620	4,332,944
Change in non-cash operating working capital	204,334	336,534
	5,552,954	4,669,478
Financing		
Decrease in accounts receivable	31,818	36,754
Increase (decrease) in accounts payable	1,557,083	(140,067)
Dividends paid	(178,577)	
	1,410,324	(103,313)
Investing		
Additions to property and equipment	(5,355,668)	(4,074,189)
Proceeds on disposal of assets	392,274	11,117
	(4,963,394)	(4,063,072)
Net increase in cash and short-term investments	1,999,884	503,093
Cash and short-term investments, beginning of year	9,707,645	9,204,552
Cash and short-term investments, end of year	11,707,529	9,707,645

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996

1. In accordance with the *Canada Ports Corporation Act*, Sections 6.1 and 6.2, a petition for the establishment of a local port corporation at the Port of Halifax was approved and the Halifax Port Corporation was established effective June 1, 1984.

   In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation—Port of Halifax to Halifax Port Corporation.

2. Summary of significant accounting policies

   Investments

   The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

   Fixed assets

   Fixed assets are recorded at cost, except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

   Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

   Pension costs

   All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

   Grants in lieu of municipal taxes

   The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

   Employee benefits

   The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave, and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

3. Investments

	1996		1995	
	Amortized cost	Face value	Amortized cost	Face value
	$	$	$	$
Short-term	11,595,477	11,682,000	9,411,942	9,587,000

HALIFAX PORT CORPORATION—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Concluded*

4. Property and equipment

		1996			1995
	Depreciation rates	Cost	Accumulated depreciation	Net book value	Net book value
	%	$	$	$	$
Land		24,585,676		24,585,676	24,583,111
Dredging	2.5 - 6.7	3,930,091	2,660,769	1,269,322	1,329,212
Berthing structures	2.5 - 10	35,352,197	22,619,405	12,732,792	13,185,981
Buildings	2.5 - 10	19,900,852	12,726,238	7,174,614	7,123,736
Utilities	3.3 - 10	8,375,744	3,868,318	4,507,426	4,154,462
Roads and surfaces	2.5 - 10	10,146,027	7,592,032	2,553,995	2,749,967
Machinery and equipment	5 - 100	10,608,854	8,063,954	2,544,900	2,808,155
Office furniture and equipment	20	1,624,410	1,397,389	227,021	224,602
Projects under construction		3,747,236		3,747,236	467,198
		118,271,087	58,928,105	59,342,982	56,626,424

5. Commitments

In accordance with a policy concerning payment of dividends to the Canadian government, the Corporation is required to pay a dividend, in respect of the 1996 fiscal year, based on a method of calculation using net earnings. This dividend, payable before March 31, 1997 amounts to approximately $450,000 for 1996 and will be applied against surplus.

6. Marine policy review

The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation of a new *Canada Marine Act* superseding the *Canada Ports Corporation Act*.

At this time, the impact upon the Corporation is not known.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements and all other information presented in this annual report are the responsibility of management and have been reviewed and approved by the Board of Governors of the Centre. The financial statements, which include amounts based on management's best estimates as determined through experience and judgement, have been properly prepared within reasonable limits of materiality and are in accordance with generally accepted accounting principles. Management also assumes responsibility for all other information in the annual report, which is consistent, where applicable, with that contained in the financial statements.

Management maintains financial systems and practices to provide reasonable assurance as to the reliability of financial information and to ensure that assets are safeguarded and the operations are carried out effectively. The Centre has an Internal Audit department whose functions include reviewing internal controls and their application on an ongoing basis.

The Board of Governors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board benefits from the assistance of its Finance and Audit Committee in overseeing and discharging its financial management responsibility, which includes the review and approval of the financial statements. The Committee, which is made up of Governors, meets with management, the internal auditors, and the external auditors on a regular basis.

The Auditor General of Canada conducts an independent audit in accordance with generally accepted auditing standards. His audit includes appropriate tests and procedures to enable him to express an opinion on the financial statements. The external auditors have full and free access to the Finance and Audit Committee of the Board.

Maureen O'Neil
President

Raymond J. Audet
Vice-President, Resources,
and Chief Financial Officer

AUDITOR'S REPORT

TO THE INTERNATIONAL DEVELOPMENT RESEARCH CENTRE
AND THE
MINISTER OF FOREIGN AFFAIRS

I have audited the balance sheet of the International Development Research Centre as at March 31, 1997 and the statements of operations, equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 6, 1997

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996 (Restated Note 3)
Current		
Cash and investments (Note 4)		
Unrestricted	13,229	11,310
Restricted	20,153	25,421
Accounts receivable (Note 5)	14,535	3,483
Prepaid expenses	1,377	1,298
	49,294	41,512
Other assets		
Capital assets (Note 6)	3,631	4,427
Recoverable deposits	161	166
Endowment funds (Note 7)	202	208
Total assets	53,288	46,313

LIABILITIES	1997	1996 (Restated Note 3)
Current		
Deferred revenue (Note 8)	24,356	13,389
Accounts payable and accrued liabilities (Notes 5 and 9)	7,271	6,541
Restructuring liability (Note 10)	1,550	4,024
	33,177	23,954
Other liabilities		
Deferred revenue (Note 8)	7,774	12,032
Accrued employee separation benefits	2,575	2,635
Deferred rent—Head Office	388	394
Endowment funds (Note 7)	202	208
Total liabilities	44,116	39,223
EQUITY	9,172	7,090
Total liabilities and equity	53,288	46,313

The accompanying notes form an integral part of the financial statements.

Approved:

MAUREEN O'NEIL
President

RAYMOND J. AUDET
Vice-President, Resources, and Chief Financial Officer

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996 (Restated Note 3)
Revenue		
Parliamentary appropriation (grant)	96,100	96,100
Supplementary parliamentary appropriation (grant) (Note 3)	1,427	7,281
Cofunding (Note 11)	20,512	15,224
Investment income	2,046	2,562
Other income	1,030	492
Total revenue	121,115	121,659
Expenses		
Development-research activities	83,686	76,561
Research-related activities		
Technical support	9,983	10,848
Information dissemination and library	4,693	4,969
	14,676	15,817
Research operational support		
Regional offices	6,026	5,930
Branch management	3,912	3,810
	9,938	9,740
Total research and related expenses	108,300	102,118
General management expenses	12,400	13,563
Overhead recovered on cofunding activities (Note 11)	(1,667)	(1,323)
Total expenses	119,033	114,358
Excess of revenue over expenses before restructuring costs	2,082	7,301
Restructuring costs (Note 10)		5,500
Surplus for the year	2,082	1,801

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996 (Restated Note 3)
Operating activities		
Cash provided by operations		
Surplus for the year	2,082	1,801
Items not affecting cash		
Amortization/write down of capital assets	2,517	1,298
Provision for employee separation benefits	341	206
Amortization of deferred rent	(6)	30
	4,934	3,335
Changes in non-cash operating assets and liabilities	(6,563)	(1,218)
Cash (used in) provided by operating activities	(1,629)	2,117
Investing activities		
Additions to capital assets net of disposals	(1,720)	(676)
Cash used for investing activities	(1,720)	(676)
(Decrease) increase in cash	(3,349)	1,441
Cash and investments at the beginning of the year	36,731	35,290
Cash and investments at the end of the year	33,382	36,731

The accompanying notes form an integral part of the financial statements.

STATEMENT OF EQUITY
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996 (Restated Note 3)
Unrestricted balance at the beginning of the year	7,090	5,289
Surplus for the year	2,082	1,801
Balance at the end of the year	9,172	7,090
Restricted balance at the beginning of the year	13,459	20,740
Prior year's adjustment (Note 3)	(13,459)	(20,740)
Restated balance		
Total equity	9,172	7,090

The accompanying notes form an integral part of the financial statements.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997
(in thousands of dollars)

1. Authority and objective

The International Development Research Centre (IDRC), a corporation without share capital, was established in 1970 by the Parliament of Canada through the *International Development Research Centre Act*. IDRC is funded mainly through an annual appropriation (grant) received from the Parliament of Canada. For purposes of the *Income Tax Act*, the Centre is deemed to be a registered charity.

The objective of the Centre is to initiate, encourage, support, and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical, and other knowledge to the economic and social advancement of those regions.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies.

Recognition of revenue

The annual Parliamentary appropriation (grant) is recorded as revenue during the fiscal year for which it is approved. Parliamentary appropriations for specific projects and funds received or receivable in respect of cofunding are deferred and recognized as revenue when the related project expenses are incurred. All other revenues are recorded on the accrual basis of accounting.

Depreciation

Capital assets are recorded at cost and amortized over their estimated useful lives on a straight-line basis. The estimated useful life of each capital asset class is as follows:

Computer equipment	3 years
Office furniture and equipment	5 years
Vehicles	3 years
Telephone system	5 years
Leasehold improvements	Remaining term of lease

Investments

Investments are recorded at the lower of cost or market value.

Foreign-currency translation

Foreign-currency transactions are translated into Canadian dollars by the use of either an average exchange rate that closely approximates the rate in effect at the transaction date or the actual rate in effect at the transaction date. Monetary assets and liabilities in foreign currency are adjusted to reflect the rate of exchange in effect at year-end. Exchange gains and losses are included in operations for the current year.

Accrued employee separation benefits

Employees are entitled to specified termination benefits, calculated at salary levels in effect at the time of separation as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees.

Deferred rent

Any rent-free period or other incentives associated with long-term leases are deferred and amortized over the term of the lease on a straight-line basis.

Pension costs

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from the employees and the Centre. These contributions represent the total liability of the Centre and are recognized in the accounts on a current basis. The Centre is not required under current legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

3. Change in accounting policy

During the year, the Centre applied a retroactive change in its accounting policy regarding Parliamentary appropriations (grants) received for specific projects. Previously, such funding was recorded as income during the year for which it was approved. To better report on the Centre's activities, such funding is now deferred and recognized as revenue when the related expenses are incurred.

In March 1994, the Centre received such a Supplementary Parliamentary appropriation (grant) of $27 million. Pursuant to a Treasury Board decision, these funds were restricted for a health-support package in Africa ($15 million) and for the Micronutrient Initiative ($12 million). The $27 million amount was recorded as income in the year ended March 31, 1994, and the unused portion of this funding was previously shown as restricted equity.

As a result of this change in accounting policy, the financial statements have been restated as follows:

The restricted equity at the beginning of the year ended March 31, 1997 ($13,459) and the year ended March 31, 1996 ($20,740) have been recorded as deferred revenue. Revenues (Supplementary Parliamentary grant) have increased by $1,427 and $7,281, respectively, for the years ended March 31, 1997 and 1996. The excess of revenue over expenses for these two years has increased by these same amounts.

4. Cash and investments

	1997	1996
Cash	(3,516)	(52)
Investments		
Canadian chartered banks	20,844	16,112
Commercial companies	13,897	11,453
Foreign-owned banks	2,157	
Federal and provincial governments		7,241
Trust and mortgage companies		1,977
	33,382	36,731

The Centre is authorized to invest in interest-bearing securities of the above-noted entities. These funds are invested in short-term money market instruments. The investment vehicles consist primarily of banker's acceptances, term deposits receipts, and short-term notes. All instruments must have a credit rating of R-1 or better, as provided by the Dominion Bond Rating Service. Investments are diversified by limiting holdings in commercial paper and trust and mortgage companies to 40% of the total portfolio. These holdings are further limited to $5.0 million per institution.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

As at March 31, 1997, the average yield of the portfolio was 3.12% and the average term to maturity was 77 days. The fair market value of the investment portfolio as at March 31, 1997 approximates the net book value.

Of the total cash and investment balance, $20,153 (1996—$25,421) is restricted for specific research activities as follows:

	1997	1996
Health support—Africa	12,032	13,459
Cofunding activities	8,121	11,962
	20,153	25,421

5. Accounts receivable and payable

Accounts receivable and accounts payable are incurred in the normal course of business. All are due on demand and are noninterest bearing. The carrying amounts of each approximate fair values because of their short maturity. A significant portion (84%) of accounts receivable is due from CIDA and does not present a significant credit risk.

6. Capital assets

	Cost		Accumulated amortization		Net book value	
	1997	1996	1997	1996	1997	1996
Computer equipment	6,968	6,008	4,793	3,487	2,175	2,521
Office furniture and equipment	1,475	1,486	1,235	998	240	488
Vehicles	866	916	681	583	185	333
Telephone system	995	966	849	787	146	179
Leasehold improvements	1,793	1,720	908	814	885	906
	12,097	11,096	8,466	6,669	3,631	4,427

Amortization for the year ended March 31, 1997 is $2,517 (1996—$1,295). This year's amortization includes an amount of $763, which is attributed to an adjustment in the estimated useful life and change of the amortization method used for certain asset categories. This constitutes a revision of estimates and, accordingly, was recorded prospectively. Also included in this year's amortization is a write down of $562 of obsolete computer equipment.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

7. Endowment funds

In 1987, the estate of the late John Bene established a fund to provide a postgraduate fellowship in the field of social forestry. The Centre is also administering $43 in other endowment funds such as the Governor's Fund and the AIDS Fund.

	1997	1996
Balance at the beginning of the year	208	202
Interest income	8	13
Expenses	(14)	(7)
Balance at the end of the year	202	208
John Bene	159	158
Other	43	50
Total endowment funds	202	208

8. Deferred revenue

Deferred revenue includes the unspent portion of funds received or receivable on cofunding activities as well as the portion of the Supplementary Parliamentary appropriation (grant) received in March 1994, which has not yet been used as at March 31, 1997. Details of these balances are as follows:

	1997	1996
Current liabilities		
Cofunding activities	20,098	11,962
Supplementary Parliamentary appropriation (grant) Health support—Africa	4,258	1,427
	24,356	13,389
Other liabilities		
Supplementary Parliamentary appropriation (grant) Health support—Africa	7,774	12,032
Total	32,130	25,421

Of the total deferred cofunding revenues, an amount of $3,517 (1996—$6,826) was received from CIDA, and an amount of $12,147 is receivable from this organization at year end.

9. Accounts payable and accrued liabilities

	1997	1996
Trade payables	2,416	1,486
Accrued liabilities—Projects	2,016	2,156
Accrued annual and other leave benefits	1,814	1,617
Other	1,025	1,282
	7,271	6,541

10. Restructuring costs

During the year ended March 31, 1996, the Board of Governors approved a restructuring of the Centre's programs and operations at its head office and regional offices. The total cost of this downsizing exercise, which included severance packages paid to employees under the special compensation and assistance program and other related costs, has been estimated at $5.5 million. As at March 31, 1997, an amount of $1.5 million (1996—$4 million) remains outstanding. A total of $2.5 million (1996—$1.5 million) was paid during the year.

11. Cofunding revenue

Cofunding relates specifically to research conducted or managed by the Centre on behalf of other organizations. This research is funded by CIDA, other federal government entities, and other agencies. A breakdown of cofunding revenue is provided below:

	1997	1996
CIDA	11,053	8,238
Other federal government entities	3,347	1,606
Other agencies	6,112	5,380
	20,512	15,224

The Centre recovers overhead on cofunding activities. This amounted to $1,667 (1996—$1,323) of which $735 (1996—$763) was recovered from CIDA.

12. Operating lease commitments

The Centre has entered into various lease arrangements for staff accommodation in various countries and for office premises and equipment in Canada and abroad. The Centre's lease agreement for its premises at its head office commenced in 1995 and will expire in 2007. The total minimum annual payments under various lease arrangements will be:

1997-98	4,704
1998-99	4,671
1999-00	4,472
2000-01	4,319
2001-02	4,370
2002-2007	28,358
	50,894

13. Contractual commitments—Project grants and project development

The Centre is committed to make payments up to $133 million during the next four years subject to funds being provided by Parliament or external partners and subject to compliance by recipients with the terms of project agreements. The Centre has also submitted formal grant offers to prospective recipients totaling $1.9 million and is awaiting acceptance of these offers.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

14. Related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the Centre is related in terms of common ownership to all Government of Canada created departments, agencies, and Crown corporations. The Centre enters into transactions with these entities in the normal course of business at the same trade terms applicable to all individuals and enterprises.

15. Contingency

A claim of approximately $820 thousand relating to a leased property in India remains outstanding at the end of the year. Management, based on advice of legal counsel, is of the opinion that it is not possible to determine the amount of the liability, if any, that may result from settlement of this claim.

The Centre is the defendant in other pending lawsuits. In management's opinion, the outcome of these other actions is not likely to result in any material liabilities.

16. Comparative figures

Certain 1996 comparative amounts have been reclassified to conform to the financial statement presentation adopted in 1997.

LAURENTIAN PILOTAGE AUTHORITY

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of the Corporation is responsible for the performance of the duties delegated to them by its Board of Directors. These include the preparation of the annual report and the production of its content, including the financial statements. The financial statements were prepared in accordance with generally accepted accounting principles on a basis consistent with that of the preceding year, and include estimates based on management's experience and judgement.

Management maintains books and records, financial and management control, information systems and management practices designed in such a manner as to provide reasonable assurance that: reliable and accurate financial information is produced on a timely basis; assets are safeguarded and controlled; transactions are in accordance with Part X of the *Financial Administration Act* and its regulations as well as the *Pilotage Act* and regulations and by-laws of the corporation and any directives given to it; resources are managed economically and efficiently, and that the operations of the corporation are carried out effectively.

The Auditor General of Canada conducts an independent audit of the financial statements of the corporation in accordance with generally accepted auditing standards.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee composed of three directors whom are not employees of the corporation. The Audit Committee discharges the responsibilities conferred upon it by the Board of Directors, and meets on a regular basis with management and the Auditor General of Canada, who has unrestricted access to the Committee.

Jean-Claude Michaud
Chairman of the Corporation

Yvon Martel
Treasurer

Montréal, Canada

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of Laurentian Pilotage Authority as at December 31, 1996 and the statements of operations, contributed capital, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
March 11, 1997

LAURENTIAN PILOTAGE AUTHORITY—*Continued*

BALANCE SHEET AS AT DECEMBER 31, 1996

ASSETS	1996	1995
	$	$
Current		
Cash		359,649
Accounts receivable	8,099,840	7,065,651
	8,099,840	7,425,300
Capital assets (Note 5)	3,420,120	3,220,286
	3,420,120	3,220,286
	11,519,960	10,645,586

LIABILITIES	1996	1995
	$	$
Current		
Bank indebtedness	3,399,908	
Accounts payable	6,743,117	7,721,356
	10,143,025	7,721,356
Long-term		
Provision for employee termination benefits	724,000	680,000
Bank loan (Note 6)	2,276,035	1,770,140
	3,000,035	2,450,140
	13,143,060	10,171,496
Commitments (Note 7)		
EQUITY OF CANADA		
Contributed capital	2,479,154	1,748,814
Deficit	(4,102,254)	(1,274,724)
	(1,623,100)	474,090
	11,519,960	10,645,586

Approved by the Authority:

JEAN-CLAUDE MICHAUD
Chairman

MICHAEL B. MILNER
Member

LAURENTIAN PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Revenues		
Pilotage charges	35,942,272	34,305,447
Interest and other revenues	76,388	61,124
	36,018,660	34,366,571
Expenses		
Pilots' fees, salaries and benefits	31,957,728	31,869,033
Operating costs of pilot boats	4,033,788	3,753,012
Staff salaries and benefits	1,643,994	1,817,377
Professional services and members' allowances	543,069	377,510
Rentals	186,154	201,536
Utilities, material and supplies	108,897	98,957
Communications	103,768	112,393
Transportation, travel and hospitality	63,716	120,652
Financing costs	48,328	28,239
Maintenance	38,542	46,796
Other	118,206	117,997
	38,846,190	38,543,502
Net loss for the year	2,827,530	4,176,931

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Operating activities		
Net loss for the year	(2,827,530)	(4,176,931)
Non-cash items		
Amortization	318,008	162,979
Increase (decrease) in the provision for employee termination benefits	44,000	(41,000)
	(2,465,522)	(4,054,952)
Decrease (increase) in accounts receivable	(1,034,189)	341,814
Increase (decrease) in accounts payable	(978,239)	889,294
	(4,477,950)	(2,823,844)
Investing activities		
Additions to capital assets—Net	(517,842)	(2,692,564)
Financing activities		
Parliamentary appropriations	730,340	4,510,224
Bank loan	505,895	1,770,140
Cash (bank indebtedness)		
Increase (decrease) of the cash for the year	(3,759,557)	763,956
Balance at beginning of the year	359,649	(404,307)
Balance at end of the year	(3,399,908)	359,649

STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Balance at beginning of the year	1,748,814	1,345,920
Parliamentary appropriation to finance the acquisition of capital assets:		
—Previous year	730,340	117,846
—Current year (Note 4)		285,048
Balance at the end of the year	2,479,154	1,748,814

STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Balance at beginning of the year	1,274,724	1,205,123
Net loss for the year	2,827,530	4,176,931
Parliamentary appropriations to finance the operating deficit:		
—Previous year		(52,378)
—Current year (Note 4)		(4,054,952)
Balance at end of the year	4,102,254	1,274,724

LAURENTIAN PILOTAGE AUTHORITY—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

1. Authority and activities

The Laurentian Pilotage Authority was established in 1972 under the *Pilotage Act*. Its objectives are to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within certain designated Canadian waters in and around the Province of Quebec. The Act provides that pilotage tariffs shall be fair and reasonable and assure a revenue which, together with any revenue from other sources, is sufficient to permit the Authority to operate on a self-sustaining basis.

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Authority is not an agent of the Crown and is exempt from income taxes.

2. Significant accounting policies

The financial statements of the Laurentian Pilotage Authority have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements are summarized below.

Capital assets

Capital assets obtained from Canada when the Authority was established were recorded at the then assigned values. Capital assets purchased subsequently by the Authority are recorded at cost.

Capital assets are amortized using the straight-line method, at rates based on the estimated useful lives of the assets.

The estimated useful lives for the major categories of capital assets for the purposes of calculating amortization are as follows:

Buildings	10 years
Pilot boats	10 and 15 years
Furniture and fixtures	10 years
Communications equipment	10 years
Computer equipment	5 years
Boarding facilities	15 and 20 years
Wharf improvements	15 years

Contributed capital

The values assigned to the capital assets obtained from Canada when the Authority was established and the net cost of capital assets financed from parliamentary appropriations are recorded as contributed capital.

Parliamentary appropriations

Parliamentary appropriations received to finance the excess of expenses over revenues are recorded in the year in which they are voted by Parliament, to contributed capital for that portion pertaining to the acquisition of capital assets and to the deficit for that pertaining to operations. In this respect, operating expenses include only those which require an outlay of funds.

Pension plan

Employees participate in the Superannuation Plan administered by the Government of Canada. The employees and the Authority contribute equally to the cost of the Plan. This contribution represents the total liability of the Authority. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided for under their collective agreements and their conditions of employment. Generally, the benefits equal one week of salary for each year of employment. The cost of these benefits is expensed in the year in which they are earned.

3. Fair values of financial instruments

The transactions related to cash, accounts receivable, bank indebtedness and accounts payable are incurred in the normal course of business. The short-term borrowings from the bank are at a floating rate; the rate is the Canadian prime rate. The carrying amounts of each of these accounts approximate their fair values because of their short-term maturity. There is no concentration of accounts receivable with any customer and, consequently, the credit risk is low.

On December 31, 1996, the fair value of the bank loan is estimated at $2,479,146 (the book value is $2,370,125). This estimate is based on the future principal repayments discounted at current interest rates for similar loans. On December 31, 1995, the fair value of the bank loan was approximated its book value.

4. Parliamentary appropriations

According to the new National Marine Policy, the Authority has no longer access to parliamentary appropriations starting this current year. Therefore the Minister of Finance authorized the Authority to have recourse to short-term borrowings for an amount not exceeding $3.0 million. These short-term borrowings will have to be converted to a long-term loan during the year 1997.

LAURENTIAN PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996—*Concluded*

5. Capital assets

	1996			1995		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	$	$	$	$	$	$
Land	9,300		9,300	9,300		9,300
Buildings	57,572	29,814	27,758	57,572	28,017	29,555
Pilot boats	3,757,882	1,477,793	2,280,089	3,350,005	1,346,149	2,003,856
Furniture and fixtures	150,589	107,137	43,452	149,263	97,504	51,759
Communications equipment	161,037	100,724	60,313	157,882	92,770	65,112
Computer equipment	219,255	161,784	57,471	173,443	127,563	45,880
Boarding facilities	303,344	204,003	99,341	303,344	195,715	107,629
Wharf improvements	1,090,318	247,922	842,396	1,090,318	183,123	907,195
	5,749,297	2,329,177	3,420,120	5,291,127	2,070,841	3,220,286

Amortization for the year is $318,008 ($162,979 in 1995).

6. Bank loan

During the year 1995, the Authority obtained a credit facility at floating rate subject to interest at the lender's prime rate in order to finance the acquisition of a pilot boat. As at December 31, 1995, the Authority had drawn upon this credit for $1,770,140. During the year 1996, the Authority continued to draw upon the credit which was then converted in a long-term loan. The terms and conditions of this loan were approved by the Minister of Finance on July 23, 1996. The loan matures in August 2001 and bears interest at a rate of 7.23%. The repayment terms are calculated based on an amortization period of 15 years.

Principal repayment requirements for subsequent years are as follows:

	$
1997	94,090
1998	101,114
1999	108,672
2000	116,771
2001	1,949,478
	2,370,125
Less amount due within one year	94,090
	2,276,035

7. Commitments

The future minimum payment commitments under an operating lease related to the rental of premises are as follows:

	$
1997	148,436
1998	148,436
1999	174,713
2000	179,979
2001	179,979
2002-2004	389,953
	1,221,496

8. Related party transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.

MARINE ATLANTIC INC.

MANAGEMENT RESPONSIBILITIES FOR FINANCIAL REPORTING

The preparation and presentation of the consolidated financial statements is the responsibility of Marine Atlantic Inc.'s management. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles consistently applied using management's best estimates and judgements that are considered appropriate to the Corporation's circumstances. Management also relies on an actuarial report to record the activities of the pension fund.

Management is responsible for the reliability and integrity of the consolidated financial statements including the notes to the statements and other financial information contained in the annual report. In addition, management is also responsible for maintaining books of account, information systems, systems of financial and management control, and a comprehensive internal audit program. These managerial controls and procedures are intended to provide reasonable assurance that accurate financial information is available, that assets are safeguarded and controlled, that resources are managed efficiently, and that transactions are conducted in accordance with relevant legislation and the Corporation's articles of incorporation and by-laws.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board, in its capacity as the Audit Committee, fulfills this responsibility. The Committee reviews matters related to accounting, auditing, internal control systems, and the financial statements.

KPMG and the Auditor General of Canada, the independent auditors of the Corporation appointed under the *Financial Administration Act*, have audited the Corporation's consolidated financial statements in accordance with generally accepted auditing standards. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings and the adequacy of the system of internal controls.

The consolidated financial statements and the annual report have been approved by the Board of Directors.

D. J. Weaver, CA
Vice-President, Finance and Administration

Rod Morrison
President and CEO

AUDITORS' REPORT

TO THE MINISTER OF TRANSPORT

We have audited the consolidated balance sheet of Marine Atlantic Inc. as at December 31, 1996 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Marine Atlantic Inc. Acquisition Authorization Act* and the articles of incorporation and by-laws of the Corporation and its wholly-owned subsidiaries.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada

KPMG
Chartered Accountants

Moncton, Canada
February 28, 1997

MARINE ATLANTIC INC.—*Continued*

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1996
(with comparative figures for 1995)
(stated in thousands of dollars)

ASSETS	1996	1995
Current assets		
Cash	748	3,030
Accounts receivable, net (Note 3)	5,579	5,731
Receivable from Government of Canada (Note 4)	4,569	1,180
Inventory of fuel and supplies	5,141	5,722
Prepaid expenses	3,378	3,135
	19,415	18,798
Capital assets (Note 5)	306,660	333,611
	326,075	352,409

LIABILITIES AND SHAREHOLDER'S DEFICIENCY	1996	1995
Current liabilities		
Bank indebtedness	381	813
Accounts payable and accrued liabilities	13,323	14,948
Accrued vacation pay	8,453	8,285
Payable to subsidiary (Note 4)	5,901	331
Accrued separation benefits (Note 6)	3,258	4,732
Losses of subsidiary in excess of the cost of the investment (Note 7)	9,399	1,991
Current portion of provision for restructuring (Note 8)	57,822	
	98,537	31,100
Provision for restructuring (Note 8)	8,477	
Deferred capital assistance	306,660	333,611
SHAREHOLDER'S DEFICIENCY		
Share capital (Note 9)	258,530	258,530
Deficit	(346,129)	(270,832)
	(87,599)	(12,302)
Commitments and contingencies (Note 11)		
Subsequent event (Note 13)		
	326,075	352,409

See accompanying notes to consolidated financial statements.

On behalf of the Board:

MOYA CAHILL
Director

M. B. MURPHY
Director

MARINE ATLANTIC INC.—*Continued*

CONSOLIDATED STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1996
(with comparative figures for 1995)
(stated in thousands of dollars)

	1996	1995
Revenue		
Commercial revenue	90,205	87,739
Charter revenue	4,902	6,408
Interest and other income	752	1,542
	95,859	95,689
Operating expenses		
Wages and benefits	87,827	100,055
Fuel	20,043	18,793
Materials	16,250	18,531
Contracted services	15,016	18,227
Insurance, rent and utilities	8,165	8,974
Separation benefits	2,258	6,880
Charter expenses	7,293	5,669
Other	5,151	5,466
Other services	4,943	4,105
Amortization	31,108	28,936
	198,054	215,636
Loss from operations before provision for restructuring	(102,195)	(119,947)
Provision for restructuring (Note 8)	67,511	
Loss from operations and provision for restructuring	(169,706)	(119,947)
Amortization of deferred capital assistance	31,108	28,936
Government funding		
Government contract revenue	67,551	89,582
Subsidies and contracted services	3,158	2,606
Earnings (loss) from continuing operations	(67,889)	1,177
Loss from discontinued operation (Note 7)	(7,408)	(263)
Net earnings (loss)	(75,297)	914

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31, 1996
(with comparative figures for 1995)
(stated in thousands of dollars)

	1996	1995
Deficit, beginning of year	(270,832)	(271,746)
Net earnings (loss)	(75,297)	914
Deficit, end of year	(346,129)	(270,832)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996
(with comparative figures for 1995)
(stated in thousands of dollars)

	1996	1995
Cash provided by (used in)		
Operations		
Earnings (loss) from continuing operations	(67,889)	1,177
Items not involving cash		
Amortization	31,108	28,936
Amortization of deferred capital assistance	(31,108)	(28,936)
Increase due to provision for restructuring	66,299	
Change in non-cash operating working capital	(260)	(3,958)
	(1,850)	(2,781)
Financing		
Capital assistance	4,157	7,466
Investment		
Expenditures on capital assets	(4,874)	(7,494)
Proceeds on disposal of capital assets	717	28
	(4,157)	(7,466)
Decrease in cash	(1,850)	(2,781)
Cash, beginning of year	2,217	4,998
Cash, end of year	367	2,217
Cash is comprised of the following		
Cash	748	3,030
Bank indebtedness	(381)	(813)
	367	2,217

See accompanying notes to consolidated financial statements.

MARINE ATLANTIC INC.—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996
(stated in thousands of dollars)

1. Nature of operations and authority

The *Marine Atlantic Inc. Acquisition Authorization Act* was proclaimed in 1986. In accordance with the Act, the Corporation's articles restrict the business it may carry on to the acquisition, establishment, management and operation of a marine transportation service, a marine maintenance repair and refit service, a marine construction business and any service or business related thereto. Its corporate mission is "to provide quality, safe and efficient marine transportation and hospitality services". Marine Atlantic Inc. is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*.

The Corporation's activities are also governed by agreements negotiated with the Government of Canada subject to parliamentary approval. The agreements provide, among other things, for the Corporation to receive contract revenues from the Government of Canada to the extent that the cost of providing ferry, coastal, terminal and water services is not recovered from commercial revenues. In addition, the acquisition of capital assets is governed by an agreement, subject to parliamentary appropriations, that limits funding to a proven cash needs basis. The funding of costs associated with restructuring and closure of activities of ferry services and funding for operating losses and closure costs of Newfoundland Dockyard Corporation, are also governed by agreements, subject to parliamentary appropriation. As a result, the Corporation is economically dependent on the Government of Canada for the funds it receives through these arrangements.

The Corporation is carrying out its formal plans, approved by the Government of Canada, to transfer and close certain services. These plans will result in the transfer of the Bay of Fundy services to a private sector operator by April 1, 1997 and the closure of the New Brunswick-Prince Edward Island service on May 31, 1997. The plans have been partially executed. In aggregate, these services have been a significant portion of the Corporation's activities representing approximately forty-five percent of commercial revenue in 1996. In addition, a wholly-owned subsidiary, Newfoundland Dockyard Corporation ceased operation in 1996. It is the Corporation's intention to wind-up the subsidiary's operation. The Corporation will continue to operate the Nova Scotia-Newfoundland service and provide coastal ferry service in Newfoundland.

2. Significant accounting policies

(a) Basis of presentation

The financial statements are prepared in accordance with generally accepted accounting principles. These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Coastal Transport Limited (see also Note 13 related to Coastal Transport Limited). All intercompany transactions between the parent company and Coastal Transport Limited have been eliminated in these consolidated financial statements. During the year the Corporation carried out its formal plan for the closure of its subsidiary, the Newfoundland Dockyard Corporation. Accordingly, the investment in this subsidiary is accounted for at the lower of net realizable value and the carrying value of the investment using the equity method (see also Note 7 concerning Newfoundland Dockyard Corporation).

(b) Government funding

Revenues received under contract, subject to parliamentary appropriation, fund operating expenses in excess of commercial revenues, for the provision of ferry services in Atlantic Canada and are included in income in the year. At the end of the fiscal year government contract revenue, subject to parliamentary approval, in excess of that required for operations and restructuring, is reduced by amounts used for capital assistance, funds transferred to subsidiary, and the amounts payable to subsidiary. Any difference remaining represents a receivable from (payable to) the Government of Canada.

(c) Management estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. Despite the use of the Corporation's best estimates, it is reasonably possible that the amounts for the following balance sheet items and related expenses could change materially in the near term: the net recoverable amount for capital assets to be disposed of (see also Note 5), losses of the subsidiary in excess of the cost of investment (see also Note 7), provision for restructuring (see also Note 8), future liabilities for workers' compensation benefits (see also Note 11 (f)), litigation (see also Note 11) and pensions (see also Note 12).

(d) Fair value

The fair value of financial instruments are determined as follows:

- Current portion of provision for restructuring-using cash flows of estimated future payments without discounting (see also Note 8).
- Provision for restructuring - using discounted cash flows of estimated future payments based on current interest rates (see also Note 8).
- Personal injury costs - workers' compensation costs for future payments related to employees of the services to be transferred and closed, in addition to employees not affected by this restructuring, are not recorded in the financial statements as the accounting policy is to record these costs on a pay-as-you-go basis (see also Note 2 (j) (ii) concerning personal injury costs and Note 11 (f) concerning commitments and contingencies).
- Pensions - the value of the accrued pension benefit is based on an extrapolation of the actuarial valuation at December 31, 1995 using management's best estimate assumptions. Pension plan assets are valued at market as at December 31, 1996 (see also Note 12).

(e) Inventory of fuel and supplies

Inventories are valued at the lower of cost and replacement cost. Cost is determined on a weighted-average basis.

(f) Capital assets and amortization

Capital assets are carried at cost less accumulated amortization. Amortization is calculated at rates sufficient to write off capital assets over their estimated useful lives generally on a straight-line basis. The rates for signigicant classes of assets are as follows:

Asset	Rate
Vessels	5%
Terminal properties	2.5%
Equipment	10%, 12.5% and 25%
Leasehold improvements	lesser of 5 years or term of lease

(g) Deferred capital assistance

Amounts received or receivable from the Government of Canada under the capital funding agreement, subject to parliamentary approval, are restricted for the purchase of capital assets. These funds are recorded as deferred capital assistance in the year in which the related capital assets are acquired, and are amortized to income on the same basis and over the same periods as related capital assets are amortized.

(h) Vessel spare parts

The Corporation maintains spare parts for vessels in service. The cost of spare parts is charged to operations when the spare parts are acquired.

(i) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the balance sheet date. Gains and losses arising on translation are included in interest and other income for the year. Other assets and liabilities, revenues and expenses are translated using exchange rates in effect at the date of the transaction.

(j) Employee compensation

(i) Pension plans

Current service costs are actuarially determined and charged to operations as they accrue based on services rendered during the year. Adjustments arising from experience gains and losses are amortized over periods from six to fourteen years. A partial pension plan curtailment will take place in 1997 due to restructuring activities initiated by the Corporation during 1996. A net gain resulting from the curtailment has been accounted for in 1996 as a reduction of total restructuring costs.

(ii) Personal injury costs

Certain employees, retired or unable to perform their duties temporarily as a result of work-related injury, receive specified benefits administered and paid by the workers' compensation boards of the four Atlantic provinces. The Corporation recognizes the benefit payouts as an expense in the year paid to the workers' compensation boards and therefore no amounts have been recorded in the financial statements for anticipated future costs which may be significant (see also Note 11 (f) concerning commitments and contingencies related to workers' compensation benefits).

(k) Provision for restructuring

The Corporation recognizes liabilities for termination benefits, related to employees to be terminated as a result of restructuring, when the decision has been approved by the Government of Canada for such restructuring and an estimate can be reasonably calculated of the anticipated future costs of such. The anticipated costs relate to specific agreements that have been reached covering most employees, unions and management's intentions for planned termination benefits for other employees. The nature of the liability includes severance payments, interim payments to bridge employees until pension entitlement and certain long-term health care benefits.

The Corporation has recorded management's best estimate of costs associated with site remediation and clean-up, adjustement of the pension expense, lay-up of vessels and miscellaneous expenses that will be required to carry out the Corporation's formal plans related to the restructuring. The provision includes costs for reclamation and remediation related to sites to be closed at the New Brunswick - Prince Edward Island service.These costs are charged to operations when they can be reasonably estimated. No amounts have been recognized for site remediation costs related to the Bay of Fundy services to be transferred as the Corporation believes responsibility and funding for such costs will be borne by the Government of Canada (see also Notes 2 (c), 2 (d) and 8).

3. Accounts receivable, net

Accounts receivable, net are comprised of the following (in thousands):

	1996	1995
Trade receivables, net	3,206	2,504
Insurance receivable, net	922	664
Other receivables, net	1,451	2,563
	5,579	5,731

The Corporation provides services to numerous customers, however five customers represent forty-three percent of the trade receivables. The insurance receivable is from one broker representing a number of insurers. The other receivable consist of a variety of items not related to the above.

MARINE ATLANTIC INC.—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

4. Receivable from (payable to) Government of Canada

As described in Note 2 (b), The Corporation receives funding from the Government of Canada to fund operations, capital purchases, losses and closure costs of the Newfoundland Dockyard Corporation, and for restructuring. Funds received from the Government of Canada were used as follows:

	1996	1995
Receivable from (payable to) Government of Canada, beginning of year	1,180	(2,648)
Cash received during the year	(85,692)	(96,790)
Used for		
Operations	67,551	89,582
Capital	4,157	7,466
Paid and payable to Newfoundland Dockyard Corporation	17,373	3,570
Receivable from Government of Canada, end of year	4,569	1,180

5. Capital assets

			1996	1995
	Cost	Accumulated amortization	Net book value	Net book value
Assets used in operations				
Vessels	441,388	226,431	214,957	238,899
Terminal properties	127,048	45,207	81,841	83,700
Equipment	28,743	23,558	5,185	6,300
Leasehold improvements	837	238	599	697
	598,016	295,434	302,582	329,596
Assets held for resale				
Vessels	13,572	9,494	4,078	4,015
	611,588	304,928	306,660	333,611

As of December 31, 1996 the Corporation has two vessels held for resale and not being used in operations. The vessels are carried at net book value. The net book values are based on estimates of appropriate amortization rates, and accumulated amortization has not been adjusted to reflect future disposal amounts for these vessels that may be less than net book value. However any increase that would be required in accumulated amortization for significant differences from recorded net book values would be offset by the identical reduction in the deferred for capital assistance. As a result, there would be no effect on net earnings or loss (see also Note 2 (g)).

6. Accrued separation benefits

The Corporation recognized estimates for employees terminated in prior years at the time of their termination based on management's best estimate of future costs at that time. Management recognizes changes in this liability from the original estimate based on actual experience. In addition, there are costs recognized for employees terminated during the year. This liability is not related to employees that will be terminated as a result of restructuring (see also Note 8).

7. Discontinued operation

During the year, the Corporation carried out provisions of its formal plan for the disposal of a subsidiary, the Newfoundland Dockyard Corporation. Execution of this plan has resulted in the closure of operations, the termination of all employees, and planned asset disposal in 1997. Accordingly, the subsidiary is not being consolidated. The investment in the subsidiary is accounted for at the lower of the net realizable value and the carrying value of the investment using the equity method.

The results of the subsidiary's operations are as follows:

	1996	1995
Revenue	3,753	6,218
Operating expenses	8,990	10,771
Loss before government assistance	(5,237)	(4,553)
Government operating assistance	5,237	4,290
Operation loss for the year		(263)
Closure costs	(19,544)	
Government closure assistance	12,136	
Loss from discontinued operation	(7,408)	(263)
Decrease in investment in subsidiary	(7,408)	(263)

Newfoundland Dockyard Corporation had sales to the parent company of $4 in 1996 (1995—$2,394).

MARINE ATLANTIC INC.—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

The amounts of the assets and liabilities of the subsidiary at December 31, which are not consolidated, are summarized as follows:

	1996	1995
Current assets	837	3,408
Receivable from parent	5,901	331
Capital assets	1	11,520
	6,739	15,259
Less		
Bank indebtedness	1,444	302
Accounts payable	230	2,306
Accrued for closure costs	3,000	
Separation costs payable	3,399	
Deferred capital assistance		6,577
Long-term debt	8,065	8,065
	16,138	17,250
Losses of subsidiary in excess of the cost of the investment	9,399	1,991

The results of the subsidiary's change in cash position are as follows:

	1996	1995
Cash provided by (used in)		
Operations		
Loss from discontinued operation	(7,408)	(263)
Items not involving cash		
Depreciation		996
Amortization of deferred capital assistance	(6,577)	(733)
Provision for write down of assets held for sale	11,578	
Change in non-cash operating working capital	6,894	2,571
	4,487	2,571
Financing		
Receivable from parent	(5,570)	(166)
Capital assistance		14
	(5,570)	(152)
Investment		
Expenditures on capital assets	(59)	(14)
Increase (decrease) in cash from discontinued operation	(1,142)	2,405
Cash position, beginning of year	(302)	(2,707)
Cash position, end of year	(1,444)	(302)

The provision for closure costs included in the assets and liabilities of the subsidiary at December 31 consists of:

Employee termination benefits	3,399
Environmental remediation and clean-up	2,000
Workers' compensation and benefits	800
Other closure items	200
	3,000
	6,399

The subsidiary has recognized a liability based on management's best estimate for employee termination benefits related to closure. The liability for termination benefits ($3,399) is based on management's assertion that the amounts recognized are complete and will not be subject to material changes upon settlement of an outstanding former employees' union grievance concerning the termination benefits. Depending upon the outcome of the grievance, the actual amount could be materially higher than the estimate recorded by management. These liabilities are calculated using discount factors at current interest rates.

The liability for closure costs pertaining to environmental concerns ($2,000), relates to site remediation and reclamation including the clean up of oil seepage that has occurred on the land occupied by the subsidiary. Management's estimate of these costs is based upon non-current consultants' reports, the requirements of presently enacted laws and regulations and the professional judgment of management. Management believes the actual amount that may be required to resolve these environmental problems could change materially in the near term; although an estimate of the potential amount cannot be reasonably made.

As a result of the closure of the subsidiary, the liability for outstanding workers' compensation benefits ($800), which prior to 1996 had been accounted for on a pay-as-you-go basis, has been recognized based on management's best estimate. Management believes that future payments will not be materially different in the near term. This liability is calculated based on expected discounted cash flows at current interest rates.

The estimate of the liability for other closure items ($200) relates to management's best estimate for all other costs including: security, insurance, etc. These costs are not expected to be materially different in the near term.

The results of the subsidiary's operations includes a charge to expenses for total closure costs of $19,544. This consists of: $10,454 for employee termination benefits, $2,000 for site remediation and clean-up, $800 for workers' compensation benefits and $6,290 for other closure costs.

MARINE ATLANTIC INC.—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

8. Provision for restructuring

Marine Atlantic Inc. has formal plans to transfer the Bay of Fundy services and close the New Brunswick - Prince Edward Island service by April 1, 1997 and on May 31, 1997, respectively. In 1996, the Government of Canada, through the Minister of Transport directed the Corporation to transfer the Bay of Fundy services to a private operator chosen by the Department of Transport. The closure of the service between New Brunswick and Prince Edward Island is the result of a law (the *Northumberland Strait Crossing Act*) enacted by the Government of Canada in 1993 to facilitate the construction and operation of a fixed link between these two provinces. Upon completion of the fixed link, it will replace the ferry service and result in closure of the service. The Corporation has a formal plan to dispose of capital assets, terminate employees affected by these decisions and perform site remediation and clean-up that may be required. The cost of other requirements related to the transfer and closure of these services is not significant, however they are covered by the formal plan. Funding of costs related to these plans governed by agreements with the Government of Canada, subject to parliamentary approval (see also Note 2 (b)). The transfer of the Bay of Fundy services to the private operator will not include any consideration being given fron the private operator to Marine Atlantic Inc. The consolidated financial statements of Marine Atlantic Inc. include the assets, liabilities, revenues and expenses of both these services.

Management's estimate for the liabilities associated with restructuring at December 31, 1996, including current and non-current amounts is:

Employee termination benefits	70,853
Site remediation and clean-up, lay-up of surplus vessel and other restructuring costs	1,700
Less pension adjustment	(6,254)
	66,299
Less current portion	57,822
Non-current portion	8,477

The Corporation's estimate of employee termination benefits is based upon special termination agreements with unionized employees which cover most of the employee groups affected by the transfer and closure of the services. For other employees a seperate termination benefit program is in place. Management has used these arrangements to estimate a liability for its planned workforce reduction based on its employee requirements after the restructuring, as outlined in its formal plans. The estimate could be significantly different if the key assumptions used by management for major determinants of the estimate vary from those planned. The Corporation made significant assumptions in preparing this estimate, including: interest rates for discount factors for the non-current portion of the liability, planned date of termination for all employees and the number of terminations.

Provision for site remediation and clean-up activities relate mainly to the New Brunswick - Prince Edward Island service. The Corporation's estimate of these costs is based upon currently available facts, existing technology, presently enacted laws and regulations as well as the professionnal judgment of consultants and counsel. This information was used to determine management's best estimate of the liability and that amount has been recognized. The Corporation plans on conducting site remediation and clean-up related to the New Brunswick - Prince Edward Island service in 1997. The Corporation believes that any future site remediation and clean-up costs related to the Bay of Fundy services are to be borne by the Government of Canada which will own the assets.

Other costs included in the provision for restructuring, mainly the estimate of vessel lay-up costs, are based on management's best estimate of anticipated future costs and have not been reduced for estimated proceeds on disposal of capital assets.

The pension adjustment credit relates to the recognition of a partial pension plan curtailment as a result of planned terminations. The Corporation's actuary determined this estimate based on management's assumptions.

The net book value of capital assets related to these services are $25,160 (1995—$26,595) and $34,715 (1995—$38,473) for the Bay of Fundy services and New Brunswick - Prince Edward Island service, respectively. These values are offset by the related deferred capital assistance (see also Note 2 (g)). Commercial revenues and operating expenses directly related to these services are $19,797 (1995—$20,664) and $24,403 (1995—$28,236) for the Bay of Fundy services and $23,465 (1995—$21,178) and $37,046 (1995—$41,159) for the New Brunswick - Prince Edward Island service, respectively.

9. Share capital

The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at December 31, 1996 and 1995, 517,061 shares at $0.50 per share have been issued and fully paid.

10. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in Note 4.

11. Commitments and contingencies

(a) The total amount required to complete contracted capital assets under construction at December 31, 1996 is estimated to be $659 (1995—$705).

(b) The Corporation makes use of property which is available through operating leases. The minimum annual lease payments are as follows: 1997—$1,100; 1998—$704; 1999—$471; 2000—$47; and 2001—$48.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Concluded*

(c) The Corporation charters vessels to complement its existing fleet. The minimum annual vessel charter payments are as follows: 1997—$2,846.

(d) The Corporation is in receipt of claims estimated at $4,700 (excluding Note 11 (g)). Management has recognized as an accrual their best estimate of the liability and they do not foresee this being materially higher in the near term.

(e) The Corporation has guaranteed the bank indebtedness of Newfoundland Dockyard Corporation, a subsidiary. The bank indebtedness position of Newfoundland Dockyard Corporation as at December 31, 1996 is $1,444 (1995—$302).

(f) The Corporation's bank has provided a letter of credit in favour of Workplace Health, Safety and Compensation Commission of New Brunswick to guarantee payment of future liabilities in the amount of $4,500. Management's has not recognized any costs that will be associated with future workers' compensation benefits. There are four provinces to which the Corporation will have future liabilities for past injury claims. It is expected that these costs will be significant given that total payments in 1996 for these claims was $1,700 (see also Note 2 (j) (ii)).

(g) The Corporation has provided five letters of guarantee in the total amount of $967, to five creditors of a charter company. The guarantees were given to obtain the release of a vessel of the Corporation from arrest, which occurred when the company that had the vessel under charter went bankrupt. The Corporation has guaranteed to pay the creditors certain claims when and if they are deemed by the courts to be valid.

12. Pensions

The Corporation maintains a defined benefit pension plan covering substantially all of its employees. Benefits generally are based on employees' length of service and rate of pay. The last actuarial valuation as at December 31, 1995 identified a net surplus for the plan.

The present value of pension plan benefits and current pension expense are actuarially determined based on assumptions provided by the Corporation's management. The most significant of these are an interest rate of 8.0% (1995—8.0%) and wage increase of 5.0% plus merit increases (1995—5.0% plus merit increases). Differences in actual future interest rates and wage increases could result in materially different pension obligations.

The Corporation's pension costs and obligations as at December 31 consist of:

	1996	1995
Pension fund assets (market value)	438,112	385,028
Pension obligations	370,377	368,040
Determination of pension expense for the year is calculated as:		
Current service cost	4,366	4,406
Interest on pension obligations	27,771	27,685
Return on fund assets	(29,662)	(27,515)
Other	(584)	3,253
Pension expense	1,891	7,829

The cumulative difference of $1,892 (1995—$1,151) between the amounts expensed and funding contributions is included in the balance sheet as a current asset.

A partial curtailment of the pension plan will occur in 1997 due to restructuring activities initiated in 1996. A net gain of $6,254, resulting from the curtailment, has been accounted for as a reduction in the provision for restructuring costs in 1996 (see also Note 8).

13. Subsequent event

In January 1997 the Corporation reached an agreement-in-principle to sell the shares of its wholly-owned subsidiary, Coastal Transport Limited, to an executive of the Corporation. Aproval of the sale of this subsidiary has not yet been obtained from the Government of Canada and therefore the agreement between the purchaser and the Corporation has not been finalized. Accordingly, the subsidiary's accounts are consolidated in the preparation of the Corporation's financial statements (see also Note 2 (a)).

MONTRÉAL PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID ANDERSON, P.C., M.P.
MINISTER OF TRANSPORT

We have audited the balance sheet of Montréal Port Corporation as at December 31, 1996 and the statements of earnings, contributed capital and retained earnings and of changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Furthermore, in our opinion, the transactions of the Corporation that have come under our notice in the course of our examination of the financial statements have been, in all significant respects, in accordance with Part X of the *Financial Administration Act* and regulations, and with the charter and by-laws of the Corporation.

Samson Bélair
Deloitte & Touche
Chartered Accountants

Montréal, Canada
January 31, 1997

BALANCE SHEET
AS AT DECEMBER 31, 1996
(in thousands of dollars)

ASSETS	1996	1995
Current assets		
Cash	176	371
Short-term investments (Note 3)	35,971	42,350
Accounts receivable	11,006	13,048
Materials and supplies	776	686
	47,929	56,455
Long-term investments (Note 3)	43,419	27,209
Fixed assets (Note 4)	158,725	159,155
Deferred costs	532	567
Other assets	268	388
	250,873	243,774

LIABILITIES	1996	1995
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	12,285	10,913
Grants in lieu of municipal taxes	494	3,260
	12,779	14,173
Accrued employee benefits	4,563	4,789
Loans from the Government of Canada (Note 6)	2,242	2,903
	19,584	21,865
EQUITY OF THE GOVERNMENT OF CANADA		
Contributed capital	153,919	153,919
Retained earnings	77,370	67,990
	231,289	221,909
	250,873	243,774

Approved by the Board:

RAYMOND LEMAY
Chairman

DOMINIC J. TADDEO
President and Chief Executive Officer

MONTRÉAL PORT CORPORATION—*Continued*

STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Revenue from operations	56,174	54,584
Operating and administrative expenses	37,180	36,043
Depreciation of fixed assets	11,141	10,903
Grants in lieu of municipal taxes	1,793	4,133
	50,114	51,079
Earnings from operations	6,060	3,505
Investment revenue	5,762	5,803
Net earnings	11,822	9,308

STATEMENT OF CONTRIBUTED CAPITAL
AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Contributed capital		
Balance, beginning and end of year	153,919	153,919
Retained earnings		
Balance, beginning of year	67,990	60,935
Net earnings	11,822	9,308
Dividends	(2,442)	(2,253)
Balance, end of year	77,370	67,990

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Operating activities		
Net earnings	11,822	9,308
Items not affecting cash		
Depreciation of fixed assets	11,141	10,903
Amortization of deferred costs	35	34
Gain on disposal of fixed assets	230	415
(Decrease) increase in accrued employee benefits	(226)	722
	23,002	21,382
Changes in non-cash operating working capital items (Note 7)	519	55
	23,521	21,437
Financing activities		
Repayment of current portion of loans from the Government of Canada	(622)	(586)
Dividends paid	(2,442)	(2,253)
	(3,064)	(2,839)
Investing activities		
(Decrease) increase in long-term investments	(16,210)	386
Acquisition of fixed assets	(11,361)	(11,760)
Disposal of fixed assets	420	6
Decrease in other assets	120	199
	(27,031)	(11,169)
Net cash (outflow) inflow	(6,574)	7,429
Cash position, beginning of year	42,721	35,292
Cash position, end of year	36,147	42,721
Represented by		
Cash	176	371
Short-term investments	35,971	42,350
	36,147	42,721

MONTRÉAL PORT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996
(tabular amounts only are in thousands of dollars)

1. Status and nature of activities

The Montréal Port Corporation (the Corporation) was incorporated by letters patent in accordance with subsection 6.2 (1) of the *Canada Ports Corporation Act* on July 1, 1983.

Under Section 6.5 of the same Act, on the establishment of a local port corporation, all rights, obligations and liabilities of the Canada Ports Corporation in relation to that harbour shall become rights, obligations and liabilities of the local port corporation and the administration of all such property and works within the limits of that harbour administered by the Board shall be deemed to have been transferred to the local port corporation, in this case the Corporation.

2. Accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles and include the following significant accounting policies:

Investments

Investments are shown at amortized cost, with premiums or discounts amortized over their periods to maturity.

Materials and supplies

Materials and supplies are valued at the lower of cost and replacement cost. Cost is determined substantially on an average cost basis.

Fixed assets

Fixed assets are recorded at original cost with related accumulated depreciation transferred from Canada Ports Corporation; subsequent acquisitions are recorded at cost.

Depreciation is calculated according to the straight-line method for the full year, commencing in the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

Deferred costs

Deferred costs are composed of costs incurred to deepen the St. Lawrence River from Montréal to Saint-Augustin. These costs are amortized over 20 years.

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the plan are required from both the employees and the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under collective agreements or in accordance with Corporation policy.

3. Investments

Funds are invested in direct and guaranteed securities of the Government of Canada. As at December 31, 1996, the market value of short-term investments is equivalent to their amortized cost, and the market value of long-term investments is $50,974,070 ($33,234,472 in 1995).

MONTRÉAL PORT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

4. Fixed assets

		1996			1995
	Depreciation rates	Cost	Accumulated depreciation	Net book value	Net book value
	%	$	$	$	$
Land		50,864		50,864	50,721
Dredging	2.5-10.0	16,178	14,644	1,534	1,819
Berthing structures	2.5-10.0	63,817	48,086	15,731	16,624
Buildings	2.5-10.0	69,410	41,176	28,234	29,267
Utilities	3.3-20.0	23,033	13,113	9,920	8,550
Roads and surface	2.5-10.0	80,825	37,957	42,868	41,194
Machinery and equipment	5.0-33.3	63,235	57,271	5,964	7,729
Office furniture and equipment	20.0-33.3	10,674	7,974	2,700	2,457
		378,036	220,221	157,815	158,361
Projects under construction		910		910	794
		378,946	220,221	158,725	159,155

5. Accounts payable and accrued liabilities

	1996	1995
	$	$
Current portion of loans from the Government of Canada	661	622
Deferred revenue	469	931
Other	11,155	9,360
	12,285	10,913

6. Loans from the Government of Canada

	1996	1995
	$	$
Loans, 6.25%, payable to 2000 in annual instalments of $842,561 including interest	2,903	3,525
Current portion	661	622
	2,242	2,903

Principal repayment requirements over the next four years are as follows:

	$
1997	661,128
1998	702,449
1999	746,352
2000	792,999

MONTRÉAL PORT CORPORATION—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Concluded*

7. Changes in non-cash operating working capital items

	1996	1995
	$	$
Accounts receivable	2,042	(1,217)
Materials and supplies	(90)	52
Accounts payable and accrued liabilities, net of current portion of loans from the Government of Canada	1,333	1,926
Grants in lieu of municipal taxes	(2,766)	(706)
	519	55

8. Contingencies

Claims aggregating approximately $3,200,000 in respect of lawsuits and guarantees related to the Corporation's property have been made against the Corporation but are not reflected in the accounts. In the opinion of the Corporation, its position is defensible and the final outcome of such claims should not result in any material loss.

9. Commitments

(a) Contractual obligations for the completion, construction and purchase of property, plant and equipment are estimated at $321,000.

(b) In accordance with a policy concerning payment of dividends to the Canadian government, the Corporation would be required to pay a dividend, in respect of the 1996 fiscal year, based on a method of calculation using net earnings. This dividend, payable before March 31, 1997, would amount to approximately $3,196,656 for 1996 and would be applied against retained earnings.

10. Related party transactions

In the ordinary course of business, the Corporation enters into transactions with related parties, including the Government of Canada and its agencies and other Crown corporations.

The Corporation derives revenue from related parties principally from grain warehousing for an amount of $1,425,000 ($2,253,000 in 1995), switching charges of $1,061,000 ($762,000 in 1995), wharfage revenues of $494,000 ($516,000 in 1995) and rental revenues of $1,202,000 ($1,650,000 in 1995). The expenses paid to related parties are principally reimbursements to Canada Ports Corporation for head office charges related to the Corporation for an amount of $2,914,000 ($1,611,000 in 1995).

The Corporation has accounts receivable of $413,000 ($1,898,000 in 1995) and accounts payable of $896,000 ($1,177,000 in 1995) with the same related parties.

11. Prior year figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

NATIONAL ARTS CENTRE CORPORATION

MANAGEMENT RESPONSIBILITIES

The Board of Trustees, which is responsible for, among other things, the financial statements of the Corporation, delegates to Management the responsibility for the preparation of the financial statements and the annual report. Responsibility for their review is that of the Audit Committee of the Board of Trustees. The financial statements were prepared by Management in accordance with generally accepted accounting principles and include estimates based on Management's experience and judgement. The financial statements have been approved by the Board of Trustees of the Corporation on the recommendation of the Audit Committee. Other financial and operating information appearing in this annual report is consistent with that contained in the financial statements.

Management maintains books and records, financial and management control and information systems designed in such a manner as to provide reasonable assurance that reliable and accurate information is produced on a timely basis and that transactions are in accordance with the *National Arts Centre Act* and by-laws of the Corporation.

The Board of Trustees of the Corporation is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee. The Audit Committee discharges the responsibilities conferred upon it by the Board of Trustees, and meets on a regular basis with Management, and with the Auditor General of Canada, who has unrestricted access to the Committee.

The Auditor General of Canada conducts an independent audit of the financial statements of the Corporation in accordance with generally accepted auditing standards and reports on the results of that audit on an annual basis.

Cy Cook
Chief Financial Officer

AUDITOR'S REPORT

TO THE CHAIR OF THE BOARD OF TRUSTEES
NATIONAL ARTS CENTRE CORPORATION

I have audited the balance sheet of the National Arts Centre Corporation as at August 31, 1996 and the statements of operations, equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at August 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
October 23, 1996

NATIONAL ARTS CENTRE CORPORATION—*Continued*

BALANCE SHEET AS AT AUGUST 31, 1996

ASSETS	1996	1995
	$	$
Current		
Cash and short-term investments (Note 3)	4,914,855	2,691,315
Accounts receivable	2,536,634	1,226,387
Parliamentary appropriation receivable (Note 5)	1,451,750	3,162,000
Inventories	362,632	501,767
Programmes in progress	912,323	962,843
Prepaid expenses	172,140	108,129
	10,350,334	8,652,441
Capital assets (Note 4)	9,490,834	10,756,095
	19,841,168	19,408,536

LIABILITIES	1996	1995
	$	$
Current		
Accounts payable and accrued liabilities (Note 3)	5,045,075	3,173,653
Employee termination benefits payable (Note 8)	99,440	1,277,000
Bank indebtedness		349,000
Deferred revenue	4,037,887	3,357,983
	9,182,402	8,157,636
Long-term portion of provision for employee termination benefits	909,716	892,689
	10,092,118	9,050,325
EQUITY OF CANADA		
Equity	9,489,861	10,125,936
National Arts Centre Foundation (Note 6)	160,293	168,479
Artistic Development Fund (Note 7)	98,896	63,796
	9,749,050	10,358,211
	19,841,168	19,408,536

Approved by Management:

CY COOK
Chief Financial Officer

KIK SANG BONG
Director of Finance

Approved by the Board of Trustees:

JEAN THÉRÈSE RILEY
Chair

ANDREW D. M. OGARANKO
Member of Board and Chair of Audit Committee

NATIONAL ARTS CENTRE CORPORATION—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED AUGUST 31, 1996

	1996	1995
	$	$
Revenue		
Performing arts programmes (Schedule 1)	7,838,364	8,777,910
Commercial services (Schedule 2)	7,317,535	8,208,581
Programme support services	274,307	314,420
Interest revenue	233,328	293,880
Artistic Development Fund—Net revenue (Note 7)	35,100	63,796
Other	51,414	16,380
	15,750,048	17,674,967
Expenses (Schedule 3)		
Performing arts programmes (Schedule 1)	14,697,686	16,266,618
Commercial services (Schedule 2)	5,481,569	6,356,979
Operation of the buildings	8,010,058	7,430,053
Programme support services	2,836,161	3,138,233
Administrative services	4,050,088	3,673,069
Board of Trustees (Note 9)	174,811	108,014
25th Anniversary—Expenses		90,000
National Arts Centre Foundation—Net expenses (Note 6)	8,186	14,509
	35,258,559	37,077,475
Excess of expenses over revenue before restructuring costs	19,508,511	19,402,508
Restructuring costs (Note 8)		1,021,000
Excess of expenses over revenue	19,508,511	20,423,508

STATEMENT OF EQUITY
FOR THE YEAR ENDED AUGUST 31, 1996

	1996	1995
	$	$
Balance at beginning of the year	10,125,936	9,869,396
Parliamentary appropriation (Note 5)	18,899,350	20,639,335
Excess of expenses over revenue	(19,508,511)	(20,423,508)
Transfer from reserve for 25th anniversary		90,000
Transfer of net revenue of the Artistic Development Fund	(35,100)	(63,796)
Transfer of net expenses of the National Arts Centre Foundation	8,186	14,509
Balance at end of year	9,489,861	10,125,936

NATIONAL ARTS CENTRE CORPORATION—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED AUGUST 31, 1996

	1996	1995
	$	$
Operating		
Excess of expenses over revenue	(19,508,511)	(20,423,508)
Items not affecting funds		
Amortization	2,502,217	2,802,361
Provision for employee termination benefits	17,027	(155,603)
Gain on disposal of capital assets	(875)	(1,727)
	(16,990,142)	(17,778,477)
Change in non-cash operating assets and liabilities	189,163	1,029,604
	(16,800,979)	(16,748,873)
Financing		
Parliamentary appropriation received	20,609,600	15,584,000
Investing		
Additions to capital assets	(1,236,081)	(2,329,164)
Increase(decrease) in cash position	2,572,540	(3,494,037)
Cash position at beginning of year	2,342,315	5,836,352
Cash position at end of year	4,914,855	2,342,315
Composed of:		
Cash and short-term investments	4,914,855	2,691,315
Bank indebtedness		(349,000)
	4,914,855	2,342,315

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 1996

1. Objectives and operations

The National Arts Centre Corporation (the "Corporation") was established in 1969 pursuant to the *National Arts Centre Act* and is not subject to the provisions of the *Income Tax Act*. Pursuant to Section 85 (1) of Part X of the *Financial Administration Act*, Divisions I to IV of Part X do not apply to the Corporation.

The objectives of the Corporation are to operate and maintain the National Arts Centre, to develop the performing arts in the National Capital Region, and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

In furtherance of its objectives, the Corporation may arrange for and sponsor performing arts activities at the Centre; encourage and assist in the development of performing arts companies resident at the Centre; arrange for or sponsor radio and television broadcasts and the showing of films in the Centre; provide accommodation at the Centre, on such terms and conditions as the Corporation may fix, for national and local organizations whose objects include the development and encouragement of the performing arts in Canada; and, at the request of the Government of Canada or the Canada Council, arrange for performances elsewhere in Canada by performing arts companies, whether resident or non-resident in Canada, and arrange for performances outside Canada by performing arts companies resident in Canada.

With a view to achieving the objectives, the Government of Canada has leased without charge the National Arts Centre building complex to the Corporation for a period expiring May 31, 1997. The Corporation is responsible for the operation and maintenance of the building.

2. Significant accounting policies

(a) Short-term investments

Short-term investments are valued at the lower of cost and market value.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value for restaurants' supplies or replacement cost for food and beverages.

(c) Programmes in progress

Direct costs, including advances to performing companies and artists, incurred prior to the end of the year for programmes in progress are deferred and charged to expenses in the year in which the programmes terminate. Indirect costs and common services not attributable to particular performances are charged to expenses in the year in which they are incurred.

(d) Capital assets

Capital assets are recorded at cost. Amortization is calculated on the straight-line method as follows:

Building—l'Atelier	20 years
Equipment	3, 5 and 7 years
Leasehold improvements	10 years

NATIONAL ARTS CENTRE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1996—*Continued*

(e) Deferred revenue

Revenue from tickets sold prior to the end of the year for programmes in progress and revenue for hall rentals are deferred and credited to revenue in the year in which the programmes terminate. Revenue from gift certificates and exchange vouchers is deferred until the certificates and vouchers are redeemed. Gift certificates and exchange vouchers not redeemed within three years of the year of their issuance and a percentage of those less than three years old are credited to revenue.

(f) Operating expenses

Expenses relating to performing arts programmes and commercial services do not include costs relating to building and equipment maintenance, utilities and administrative services.

(g) Pension plan

Employees of the Corporation participate in the Public Service Superannuation Plan, administered by the Government of Canada. Contributions to the Plan are required by both the employees and the Corporation on an equal basis. The Corporation's contributions represent the Corporation's total obligation and are recorded as they become due.

The Corporation is not required under present legislation to make contributions with respect to employees for actuarial deficiencies of the Public Service Superannuation Account.

(h) Employee termination benefits

Employees of the Corporation are entitled to specified benefits on termination as provided for under their respective contracts and conditions of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(i) Parliamentary appropriation

The Corporation credits to equity each month one-twelfth of the approved appropriation. The parliamentary appropriation approved for the period from April 1 to August 31, is in respect of the Government of Canada's fiscal year ending on March 31 of the following year. Accordingly, the portion of the amount received to August 31, which is in excess of 5/12ths of the appropriation, is deferred to the following year. Similarly, the portion of the amount received to August 31, which is less than 5/12ths of the appropriation, is recorded as a receivable.

A portion of the Parliamentary appropriation is for the financing of major repairs and improvements to the National Arts Centre buildings. The relevant amounts are based on the Corporation's five-year plan for major work projects submitted to Treasury Board.

3. Restricted funds

Cash and short-term investments included $62,917 (1995—$49,082) for National Arts Centre Orchestra Trust Fund $58,230 (1995—$54,255) for National Arts Centre Orchestra Tour Fund, and $1,862 (1995—$2,697) for Trudi LeCaine Fund. The same amounts were also included in Accounts payable and accrued liabilities.

4. Capital assets

	1996			1995
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land	90,000		90,000	90,000
Building—l'Atelier	298,069	222,913	75,156	90,059
Equipment	7,421,774	5,579,820	1,841,954	1,879,349
Leasehold improvements	26,366,871	18,883,147	7,483,724	8,696,687
	34,176,714	24,685,880	9,490,834	10,756,095

5. Parliamentary appropriation receivable (deferred)

	1996	1995
	$	$
Balance at beginning of year	3,162,000	(1,893,335)
Credited to equity		
—Operations	16,861,017	18,538,835
—Major repairs and improvements	2,038,333	2,100,500
	18,899,350	20,639,335
Received during the year	(20,609,600)	(15,584,000)
Balance at end of year	1,451,750	3,162,000

6. National Arts Centre Foundation

The National Arts Centre Foundation is a fund that was established in 1992 for the purpose of recognizing, stimulating and promoting excellence in the creation and performance of the arts of the stage by the award of bursaries, prizes and grants. On November 4, 1994, the Corporation decided to discontinue the Foundation, subject to the application of all remaining monies in the fund for its original purposes.

A summary of the transactions related to the fund is provided below:

	1996	1995
	$	$
Balance at the beginning of year	168,479	182,988
Interest revenue	10,389	10,140
Bursaries, prizes and grants	(18,024)	(17,500)
Administrative expenses	(551)	(7,149)
Net expenses	(8,186)	(14,509)
Balance at end of year	160,293	168,479

NATIONAL ARTS CENTRE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1996—*Concluded*

7. Artistic Development Fund

On November 4, 1994, the Corporation decided that a fund, to be known as the "Artistic Development Fund", be set up for the purpose of recognizing, stimulating and promoting excellence in the creation and performance of the arts of the stage by the award of bursaries and prizes to worthy recipients and by grants for worthy projects.

A summary of the transactions related to the Fund is provided below:

	1996	1995
	$	$
Balance at the beginning of year	63,796	
Donations	84,519	258,683
Interest revenue	1,890	
Fundraising expenses	(38,954)	(134,711)
Administrative expenses	(12,355)	(60,176)
Net revenue	35,100	63,796
Balance at end of year	98,896	63,796

8. Restructuring costs

As part of a plan to reduce operating costs, the Corporation decided on June 2, 1995, to reduce the human resources costs through voluntary retirements and layoffs. The total estimated cost of the severance packages is $1,277,000 incurred in 1994-95 and before. The Corporation recovered $377,600 from the Central Reserve established by Treasury Board in March 1996.

9. Board of Trustees' expenses

The increase in the Board of Trustees' expenses of $66,797 in 1995-96 is due to the development and implementation of an internal corporate re-organization which gave rise to additional meetings of the Board and its Committees. Furthermore, costs were incurred by the Board for the search of a Chief Executive Officer, a Chief Financial Officer and a Music Director.

10. Related party transactions

In addition to transactions outlined in Note 5, the Corporation is related in terms of common ownership to all Government of Canada-created departments, agencies and Crown corporations.

During the year, in the normal course of business and on normal trade terms applicable to all individuals and enterprises, the Corporation incurred expenses totalling $753,580 (1995—$732,443) for utility, facilities and telephone services provided by other government departments and agencies and earned revenue totalling $939,270 (1995—$955,630) from special grants from, and restaurants' sales to, other government departments and agencies.

11. Contingencies

The Corporation is the claimant or defendant in certain pending claims and lawsuits. In Management's opinion, the outcome of these actions is not likely to result in any material liabilities.

12. Comparative figures

Certain figures for 1995 have been reclassified to conform to the presentation adopted this year.

NATIONAL ARTS CENTRE CORPORATION—*Concluded*

SCHEDULE OF REVENUE AND EXPENSES— PERFORMING ARTS PROGRAMMES FOR THE YEAR ENDED AUGUST 31, 1996 SCHEDULE 1

	1996	1995
	$	$
Revenue		
Music	3,025,580	3,222,781
Theatre	1,941,576	1,990,462
Rental of halls	1,601,625	1,895,389
Dance	1,102,801	1,360,252
Special events	164,695	303,654
Television	2,087	5,372
	7,838,364	8,777,910
Expenses		
Music	6,623,382	7,445,176
Theatre	4,202,733	4,512,303
Rental of halls	855,938	1,116,010
Dance	2,476,574	2,296,232
Special events	197,752	363,159
Television	269,439	394,218
Artistic administration	71,868	139,520
	14,697,686	16,266,618
Excess of expenses over revenue	6,859,322	7,488,708

SCHEDULE OF REVENUE AND EXPENSES— COMMERCIAL SERVICES FOR THE YEAR ENDED AUGUST 31, 1996 SCHEDULE 2

	1996	1995
	$	$
Revenue		
Restaurants	5,343,692	6,087,285
Garage	1,973,843	2,121,296
	7,317,535	8,208,581
Expenses		
Restaurants	5,012,074	5,896,036
Garage	469,495	460,943
	5,481,569	6,356,979
Excess of revenue over expenses	1,835,966	1,851,602

SCHEDULE OF EXPENSES BY CATEGORY FOR THE YEAR ENDED AUGUST 31, 1996 SCHEDULE 3

	1996	1995
	$	$
Salaries, wages and employee benefits	12,803,021	14,060,579
Performers' fees and expenses	7,860,877	8,429,895
Amortization	2,502,217	2,802,361
Repairs and maintenance	2,475,258	1,582,502
Advertising and promotion	2,072,379	2,096,046
Cost of sales—Commercial services	1,960,475	2,251,892
Utilities	1,476,842	1,469,955
Professional fees and expenses	1,261,743	964,225
Artistic co-production expenses	649,952	1,072,588
Production expenses	676,772	601,521
Office expenses	540,475	643,143
Commissions and service charges	287,643	288,752
Furniture and equipment	210,558	137,844
Travel and duty entertainment	181,514	364,254
Telecommunications	144,274	150,918
Insurance	67,898	70,142
Warehouse rent	50,247	48,041
Other	36,414	42,817
	35,258,559	37,077,475

NATIONAL CAPITAL COMMISSION

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the National Capital Commission are the responsibility of management and have been approved by the members of the Commission. These financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, they include amounts that have been estimated according to management's best judgement.

Management has developed and maintains books of accounts, records, financial and management controls and information systems. These are designed to provide reasonable assurance that the Commission's assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *National Capital Act* and the by-laws of the Commission. Internal audits are conducted to assess the performance of information systems and management controls and practices.

The Commission's external auditor, the Auditor General of Canada, has audited the financial statements and has reported on his audit to the Commission and to the Minister of Canadian Heritage.

The members of the Commission carry out their responsibilities for the financial statements principally through the Corporate Audit and Evaluation Committee, which consists of members of the Commission only. The Corporate Audit and Evaluation Committee meets periodically with management, as well as with the internal and external auditors to discuss the results of the audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. The external and internal auditors have full access to the Corporate Audit and Evaluation Committee, with or without the presence of management.

Marcel Beaudry
Chairperson

Robin Young
Vice-President, Strategic Planning and Information Management

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the National Capital Commission as at March 31, 1997, and the statements of operations, equity and changes in cash resources for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements, based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 1997, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *National Capital Act* and the by-laws of the Commission.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 6, 1997

NATIONAL CAPITAL COMMISSION—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash and short-term deposits (Note 3)	33,807	41,966
Accounts receivable		
Federal government departments and agencies	1,863	1,223
Tenants and others	2,093	2,782
Inventory and nursery stock	125	328
Prepaid expenses	2,804	1,883
Current portion of net investment in sales-type leases	245	
	40,937	48,182
Net investment in sales-types leases (Note 4)	270	
Trust account (Note 5)	4,335	4,079
Land, buildings and equipment (Note 6)	350,651	354,907
	396,193	407,168

LIABILITIES	1997	1996
Current		
Accounts payable and accrued liabilities		
Federal government departments and agencies	1,231	2,391
Others	22,449	26,092
Holdbacks and deposits from contractors and others	1,315	1,200
Deferred parliamentary appropriation		8,020
	24,995	37,703
Long-term		
Accrued employee termination benefits	3,075	3,769
Unsettled expropriations of property	1,522	729
Deferred insurance proceeds (Note 5)	4,335	4,079
Deferred rent inducement	4,139	4,321
Restructuring cost		1,334
Deferred revenue	398	
	13,469	14,232
	38,464	51,935
EQUITY OF CANADA	357,729	355,233
	396,193	407,168

The accompanying notes are an integral part of the financial statements.

Approved by the Commission:

MARCEL BEAUDRY
Chairperson

PIERRE ISABELLE
Chairperson, Corporate Audit and Evaluation Committee

NATIONAL CAPITAL COMMISSION—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Income		
Rental operations and easements	15,669	13,913
Interest	1,661	1,426
Net gain on disposal of land, buildings and equipment (Note 7 (a))	23,712	15,714
Sponsorship		
Cash	809	792
Goods and services in kind	1,087	1,615
User access fees	1,034	1,070
Other fees and recoveries	2,979	2,277
Parliamentary appropriations	67,219	73,767
	114,170	110,574
Cost of operations (Note 7 (b))		
Planning the National Capital Region	2,275	2,242
Promoting and animating the National Capital Region	15,301	14,700
Real asset management and development	86,649	59,328
Corporate services	23,975	24,198
Restructuring cost	469	(380)
	128,669	100,088
Net income (Net cost of operations)[1]	(14,499)	10,486
[1] ANALYSIS OF FUNDING THE COST OF OPERATIONS		
Net income (Net cost of operations)	(14,499)	10,486
Expenses not requiring funding		
Amortization	13,273	13,788
Deferred rent inducement	(183)	(183)
Deferred revenue	(21)	
Net gain on disposal of land, buildings and equipment	(23,712)	(15,714)
Proceeds from disposal of equipment	1,654	330
Transfer from disposal of land (Note 3)	2,675	
Disposal expenses	237	275
Interest revenue	(673)	(292)
Contribution	27,559	
Parliamentary appropriations	(8,020)	
Land contribution	6,050	
Prior year commitments carry-over	607	(8,083)
Excess of funding over cost of operations	4,947	607

The accompanying notes are an integral part of the financial statements.

STATEMENT OF EQUITY
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Balance at beginning of year	355,233	327,920
Net income (Net cost of operations)	(14,499)	10,486
Parliamentary appropriations to acquire and improve land, buildings and equipment	16,995	16,827
Balance at end of year	357,729	355,233

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN CASH RESOURCES
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Operating activities		
Net income (Net cost of operations)	(14,499)	10,486
Items not involving cash		
Amortization	13,273	13,788
Net gain on disposal of land, buildings and equipment	(23,712)	(15,714)
Land contribution	6,050	
Net change in non-cash working capital balances related to operations	(13,377)	4,372
Net change in cash restricted as to use and long-term liabilities	(1,019)	(1,707)
	(33,284)	11,225
Financing activities		
Parliamentary appropriations to acquire and improve land, buildings and equipment	16,995	16,827
Proceeds on disposal of land, buildings and equipment	34,309	19,164
	51,304	35,991
Investing activities		
Acquisitions and improvements to land, buildings and equipment	(25,664)	(23,423)
Sales-type leases	(515)	
	(26,179)	(23,423)
Increase (decrease) in cash and short-term deposits	(8,159)	23,793
Beginning of year	41,966	18,173
End of year	33,807	41,966

The accompanying notes are an integral part of the financial statements.

NATIONAL CAPITAL COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1997

1. Authority and objectives

The National Capital Commission was established in 1958 by the *National Capital Act*. The Commission is an agent Crown corporation without share capital named in Part I of Schedule III to the *Financial Administration Act*. The objects and purposes of the Commission, as stated in the *National Capital Act* as amended in 1988, are to:

(a) prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance;

(b) organize, sponsor or promote such public activities and events in the National Capital Region as will enrich the cultural and social fabric of Canada, taking into account the federal character of Canada, the equality of status of the official languages of Canada and the heritage of the people of Canada; and

(c) coordinate the policies and programs of the Government of Canada respecting the organization, sponsorship or promotion by departments of public activities and events related to the National Capital Region.

The Commission is also responsible for the management and maintenance of the Official Residences located in the National Capital Region.

The Commission's income is not subject to the requirements of the *Income Tax Act*.

2. Significant accounting policies

(a) Land, buildings and equipment

Land, buildings and equipment are generally recorded at historical cost. Property acquired at nominal cost or by donation is recorded at market value at time of acquisition, except for properties of historical significance whose market value cannot be reasonably determined. These are recorded at nominal value. Artifacts donated to the Canadiana Fund are recorded at nominal value. Improvements that extend the useful life of buildings and equipment are recorded at cost.

(b) Amortization

Amortization of assets in use is charged to operations in equal annual amounts based on the cost of the assets, their estimated useful life and their final salvage value. Useful life of assets is estimated as follows:

Buildings	20 years
Parkways, roadways and bridges	25 years
Park landscaping and improvement	25 years
Leasehold improvements	Term of lease
Machinery and equipment	10 years
Office furniture	10 years
Office equipment	5 years
Vehicles	5 years
Antiques and works of art	10 years
Computer and communications equipment	5 years

(c) Non-monetary transactions

When a non-monetary transaction related to an assets exchange takes place and there is a change in the purpose for which the asset is held, the transaction is recorded at the fair market value of the properties exchanged. If there is no change in purpose for which the asset is held, the transaction is recorded at the carrying value of the asset given up.

(d) Inventory and nursery stock

Inventory is carried at cost. Nursery stock is valued at estimated cost.

(e) Pension plan

Commission employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Commission's contributions to the plan are limited to an amount equal to the employees' contributions on account of current and certain past service. These contributions represent the total pension obligations of the Commission and are charged to operations on a current basis. The Commission is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(f) Employee termination benefits

Severance pay generally accrues to employees over their service period and is payable on their separation or retirement. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees.

(g) Deferred rent inducement

The Commission currently leases its Head-quarters office space. Moving expenses and major leasehold improvements incurred by the lessor to accommodate Commission needs have been recorded as of the effective date of the lease and are amortized over the term of the lease.

(h) Parliamentary appropriations

Parliamentary appropriations for operating expenditures and grants and contributions to other levels of government and other authorities are included as income. Parliamentary appropriations to acquire and improve land, buildings and equipment are credited to the equity of Canada.

(i) Workers' compensation

The Commission assumes all risks for workers' compensation claims. The costs of claims resulting from injuries on duty are recorded in the years when compensation payments are due.

3. Cash and short-term deposits

The Commission's policy is to invest temporary excess cash in short-term deposit certificates, treasury bills, and banker's acceptances with Canadian financial institutions. As at March 31, 1997, cash and short-term deposits include deposit certificates and banker's acceptances of $34.4 million ($38 million in 1996) at a weighted average interest rate of 3.2% (5% in 1996). The fair value of cash and short-term deposits is equal to the book value due to the maturity date.

NATIONAL CAPITAL COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1997—*Continued*

Cash and short-term deposits at year-end amounted to $34.4 million. Included in this cash balance are funds that are restricted:

(a) Cash donations received for the Canadiana Fund in the amount of $66,984;

(b) Funds, in the amount of $25.623 million as follows:

(i) funds of $1.905 million relating to a 1990 long-term lease transaction that, pursuant to Governor in Council authority, have been restricted for the acquisition of environmentally sensitive lands;

(ii) funds of $8.974 million generated by the disposal of surplus properties that may be used to acquire real property or to support other major programs, as may be authorized by Treasury Board and Governor in Council;

(iii) funds of $14.744 million arising from the disposal of lands and restricted for the Champlain Bridge rehabilitation;

(iv) details of transactions are highlighted in the following analysis:

	Environmentally sensitive lands	Champlain Bridge	Others	Total
	(in thousands of dollars)			
Cash available at beginning of year	1,857	14,370	11,332	27,559
Proceeds on disposal			32,655	32,655
Acquisition/Disposal expenses			(237)	(237)
Interest	48	374	251	673
Acquisitions			(299)	(299)
Contribution			(27,559)	(27,559)
Transfer to:				
Operating budget			(2,675)	(2,675)
Capital budget			(4,494)	(4,494)
Cash available at the end of year	1,905	14,744	8,974	25,623

4. Net investment in sales-type leases

	1997
	(in thousands of dollars)
Total minimum payments according to the sales-type leases	559
Unearned interest	44
	515
Payments due within the next year	245
	270

The leases carry an interest rate of 8.25%, the market rate for similar commercial loans at the time the contracts were signed. The term ends in 1999. Payments for the next two years, including unearned interest, are $280 thousand in 1998 and $279 thousand in 1999. The fair value of the net investment in sales-type leases is approximately equal to the book value.

5. Trust account

The Commission has segregated funds received in respect of a claim for damages arising from injuries sustained in an accident by an NCC employee. These funds have been paid to the Commission as it will be responsible to pay the continuing cost relating to this claim settlement. Future costs were assessed in an actuarial study completed in 1991.

As at March 31, 1997, the portfolio's overall rate of return was 13.3% (12.5% in 1996). All investments were made in accordance with the following strategy: short-term Canadian notes and treasury bills rated R1 by the Dominion Bond Rating Service and A1+ or A1 by the Canadian Bond Rating Service, Canadian bonds and debentures rated AAA, AA and A by the Dominion Bond Rating Service or A++, A+ and A by the Canadian Bond Rating Service, securities of the Government of Canada or of a provincial government to a maximum of 30% of the total market value of the portfolio.

As at March 31, 1997 and 1996, the fair value of the investments was approximately equal to the book value.

NATIONAL CAPITAL COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1997—*Continued*

6. Land, buildings and equipment

	1997			1996		
	Historical cost	Accumulated amortization	Net book value	Historical cost	Accumulated amortization	Net book value
	(in thousands of dollars)					
Land and buildings						
Greenbelt	69,104	21,344	47,760	68,526	20,732	47,794
Gatineau Park	47,956	8,989	38,967	45,237	8,449	36,788
Parkways	94,916	42,104	52,812	105,189	50,349	54,840
Parks	43,966	19,061	24,905	38,074	17,709	20,365
Bridges and approaches	28,477	18,600	9,877	32,832	20,276	12,556
Historical sites	36,266	20,707	15,559	34,476	19,333	15,143
Recreational facilities	25,914	14,933	10,981	24,644	13,919	10,725
Rental properties	125,772	17,534	108,238	124,566	16,039	108,527
Development properties	25,048	3,350	21,698	31,052	3,342	27,710
Unsettled expropriations	1,522		1,522	729		729
Administrative and service buildings	16,565	11,740	4,825	16,264	11,153	5,111
	515,506	178,362	337,144	521,589	181,301	340,288
Less: provision for transfers[1]	(1,838)		(1,838)	(1,838)		(1,838)
Less: provision for environmental clean-up (Note 9)	(477)		(477)	(464)		(464)
	513,191	178,362	334,829	519,287	181,301	337,986
Leasehold improvements	8,875	599	8,276	5,398	283	5,115
Equipment						
Machinery and equipment	1,488	886	602	4,407	2,692	1,715
Office furniture and equipment	3,225	1,421	1,804	3,233	1,205	2,028
Vehicles	1,057	714	343	3,885	2,572	1,313
Computer and communications equipment	15,662	11,040	4,622	17,639	11,111	6,528
Antiques and works of art	1,858	1,683	175	1,866	1,644	222
	23,290	15,744	7,546	31,030	19,224	11,806
Total	545,356	194,705	350,651	555,715	200,808	354,907

[1] Provision for transfers pertains to property to be transferred in accordance with agreements with the Province of Quebec. This includes lands to be given for the approaches to the MacDonald-Cartier Bridge and to be used as a right-of-way for Highway 550 in exchange for other lands.

NATIONAL CAPITAL COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1997—*Continued*

7. Information included in the Statement of operations

(a) Significant divestiture of assets

(i) Laurier and MacKenzie King Bridge transfer

As part of its divestiture strategy, the Commission is conveying roads and bridges which are integral components of the regional or municipal transportation network. During 1996-97, the Commission disposed of the MacKenzie King and Laurier Bridges to the Regional Municipality of Ottawa-Carleton.

These bridges are in need of major rehabilitation work over the next years. In fact, the rehabilitation and maintenance costs to the Commission were $27.6 million. In exchange for the Regional Municipality of Ottawa-Carleton taking over the bridges, the Commission conveyed approximately 267.1 hectares of land plus easements and facilities with a market value that covers the financial obligations related to the bridge divestiture. This contribution is included in the $33.8 million mentioned in part (b). The Regional Municipality of Ottawa-Carleton also paid $4.6 million to the Commission representing the excess of the market value of the divested assets over the assumed liability.

In exchange, the Commission realized a gain on disposal of land of $23.2 million and rental and facilities revenue of $2.2 million.

(ii) Contribution towards the construction of the des Draveurs Parkway

During the year, the Commission contributed to the construction of the des Draveurs Parkway project in Gatineau. The contribution, included in the $33.8 million mentioned in part (b) below, took the form of a land transfer with a value of $6.1 million.

(b) Summary of expenses by major classification

	1997	1996
	(in thousands of dollars)	
Salaries and employee benefits	30,210	41,580
Goods and services	35,467	26,237
In kind services	1,087	1,615
Grants in lieu of municipal taxes	14,359	15,443
Contributions	33,804	1,805
Amortization	13,273	13,788
Restructuring costs	469	(380)
	128,669	100,088

(i) Sector definitions and objectives

The Commission uses four sectors to structure its activities. Short-, medium- and long-term objectives linked to the mandate and mission have been developed for each one. The following are the long-term objectives established for each sector:

Planning the National Capital Region

To guide the physical development and use of federal lands, to coordinate and achieve excellence in design and to plan development that is appropriate to the role and significance of the Capital of Canada.

Promoting and animating the National Capital Region

To increase awareness of the Capital Region outside the National Capital Region through national marketing campaigns, communications contacts (broadcasting) and outreach activities, and to present the Capital to visitors as a place to experience Canadian heritage, culture and achievements through varied services, events and programs.

Real asset management and development

To manage and protect physical assets of national significance on behalf of future generations of Canadians.

Corporate services

To promote efficient and productive use of resources through the centralized provision of corporate services to all of the business lines.

(ii) Restructuring cost

As a result of the February 27, 1995 Federal Budget, NCC appropriations have been reduced by $21.4 million over the years 1995-96 to 1997-98. This reduction has been realized through a significant downsizing of the Commission's workforce. Restructuring costs, estimated at $13.8 million over three years, were expensed in 1994-95. The final payments will be made in 1997-98 and their fair value corresponds to their book value.

8. Major commitments

(a) The Commission has entered into agreements for services, leases of equipment and operating leases for office accommodations. The agreements show different termination dates, with the latest ending in 2019, and total $120.6 million.

The Commission has also privatized the management and maintenance of a portion of its lands and properties as part of the federal government's program review. Contracts totalling $30.7 million have been awarded for these functions; these contracts will terminate from 1999 to 2001.

Minimum annual payments under these agreements for the next five years are approximately as follows:

	(in thousands of dollars)
1997-98	16,635
1998-99	14,583
1999-00	9,519
2000-01	8,406
2001-02	4,545

(b) The Commission has entered into contracts for capital expenditures estimated to cost approximately $3.2 million. Payments under these contracts are expected to be made in 1997-98 and 1998-99.

NATIONAL CAPITAL COMMISSION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1997—*Concluded*

9. Contingencies

(a) Claims

Claims have been made against the Commission totalling approximately $14.2 million, excluding interest and other costs, for alleged damages and other matters. The final outcome of these claims is not determinable and accordingly these items are not recorded in the accounts. In the opinion of management, the position of the Commission is defensible. Settlements, if any, resulting from the resolution of these claims will be accounted for in the year in which the liability is determined.

(b) Agreement with the Province of Ontario

In 1961, the Commission entered into an agreement whereby the Province of Ontario established and maintains 2,761 hectares (6,820 acres) of forest. When the agreement expires in 2011, or is terminated, the Commission will reimburse the Province for the excess of expenses over revenues, or the Province will pay the Commission the excess of revenues over expenses. According to the latest report from the Province, at March 31, 1995, cumulative expenses exceeded cumulative revenues by $1.2 million, and are not reflected in the accounts of the Commission.

(c) Environmental protection

The Commission has conducted a preliminary analysis that has identified certain properties that, at the time of acquisition, qualified for potential decontamination. In the situations where the decontamination is probable and the cost can be reasonably estimated, the Commission has capitalized the costs of environmental cleanup and has recorded a provision against its assets. In other situations, no amount has been recorded because the extent of the contamination, cost of clean-up and funding requirements cannot be reasonably assessed until further on-site testing is completed.

10. Related party transactions

The Commission is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations and is mainly financed by the Parliament of Canada.

In addition to the related party transactions described below and those disclosed elsewhere in these financial statements, the Commission also enters into transactions with Crown entities. In the normal course of business and on normal trade terms applicable to all individuals and enterprises, the Commission incurred expenses totalling $6.92 million ($14.95 million in 1996) for utilities, rental of space, assets and services purchased from other government departments and agencies and earned revenues totalling $87.69 million ($103.81 million in 1996) from special grants, services rendered, rental operations and sales of assets to the other government departments and agencies.

(a) Quebec Road Agreement

The Government of Canada committed the Commission to contribute the Province of Quebec, one-half of the cost of a road network within the Quebec portion of the National Capital Region. As at April 1, 1996, this responsibility was transferred to Transport Canada.

11. Fair value of financial instruments

In addition to what was already described in Notes 3, 4, 5 and 7 relating to this topic, the fair value of accounts receivable, accounts payable and accrued liabilities and contractor holdbacks and deposits approximates the book value due to their impending maturity. As for long-term items, the fair value of accrued employee termination benefits, unsettled expropriations of property and deferred rent inducement also approximates the book value.

12. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

NATIONAL GALLERY OF CANADA

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the National Gallery of Canada (the Gallery) and all information in this annual report are the responsibility of management. The financial statements include some amounts that are necessarily based on management's estimates and judgment.

The financial statements have been prepared in accordance with generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statemens.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, proper records are maintained and transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act*, and the by-laws of the Gallery.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for maintaining adequate control systems and the quality of financial reporting. The Audit and Evaluation Committee of the Board of Trustees meets regularly with management and internal and external auditors to discuss auditing, internal controls and other relevant financial matters. The Committee reviews the financial statements and presents its recommendation to the Board of Trustees. The Board of Trustees approves the financial statements.

The external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon to the Minister of Canadian Heritage.

Dr. Shirley L. Thomson
Director

Yves Dagenais
Deputy Director

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the National Gallery of Canada as at March 31, 1997 and the statements of operations, equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Gallery's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Gallery as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Gallery that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Gallery.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 2, 1997

NATIONAL GALLERY OF CANADA—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash and investments (Note 3)	7,220	6,725
Accounts receivable	707	817
Inventories	2,080	663
Prepaid expenses	99	70
	10,106	8,275
Restricted cash and investments (Note 3)	6,022	3,570
Collections	1	1
Capital assets (Note 4)	7,454	7,876
	23,583	19,722

LIABILITIES	1997	1996
Current		
Accounts payable and accrued liabilities (Note 5)	4,389	4,504
Special purpose account (Note 6)	2,871	640
	7,260	5,144
Accrued employee termination benefits	1,184	1,125
Trust accounts (Note 7)	3,151	2,930
EQUITY		
Equity of Canada (Note 8)	11,988	10,523
	23,583	19,722

The accompanying notes form an integral part of the financial statements.

Approved by the Board of Trustees:

JEAN-CLAUDE DELORME
Chairperson

RUTH FREIMAN
Vice-Chairperson

NATIONAL GALLERY OF CANADA—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Expenses		
Collect		
—Operations	5,479	5,015
—Art acquisitions (Note 9)	848	3,870
Total—Collect	6,327	8,885
Educate and communicate	12,291	12,756
Accommodate	10,987	12,111
Administer	3,475	3,651
Total expenses (Schedule 1)	33,080	37,403
Total revenue (Schedule 2)	4,723	5,586
Net cost of operations	28,357	31,817

The accompanying notes form an integral part of the financial statements.

STATEMENT OF EQUITY OF CANADA
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Balance at beginning of year	10,523	7,904
Parliamentary appropriations - for operating and capital expenditures	28,974	30,575
Parliamentary appropriations - for the purchase of objects for the collections (Note 6)		
—Current year	3,000	3,000
—Drawn from previous years		861
—Carried forward to future years	(2,152)	
	848	3,861
Total—Parliamentary appropriations	29,822	34,436
Less: net cost of operations	(28,357)	(31,817)
Net change in equity	1,465	2,619
Balance at end of year	11,988	10,523

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Operating activities		
Net cost of operations	(28,357)	(31,817)
Items not affecting funds		
Amortization	1,207	1,215
Accrued employee termination benefits	59	
Loss on disposal of capital assets	8	33
	(27,083)	(30,569)
Increase in non-cash working capital components	(1,451)	(1,190)
Funds applied to operating activities	(28,534)	(31,759)
Investing activities		
Purchase of capital assets	(797)	(1,345)
Proceeds from disposal of capital assets	4	4
Funds applied to investing activities	(793)	(1,341)
Financing activities		
Parliamentary appropriations—for operating and capital expenditures	28,974	30,575
Parliamentary appropriations—for the purchase of objects for the collection (Note 6)	848	3,861
Funds provided by financing activities	29,822	34,436
Increase in funds during the year	495	1,336
Cash and investments at beginning of year	6,725	5,389
Cash and investments at end of year (Note 3)	7,220	6,725

The accompanying notes form an integral part of the financial statements.

NATIONAL GALLERY OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997

1. Authority, objectives and activities

The National Gallery of Canada (the Gallery) was established on July 1, 1990 by the *Museums Act* as a Crown corporation under Part I of Schedule III to the *Financial Administration Act*.

The Gallery's mandate as stated in the *Museums Act* is to develop, maintain and make known throughout Canada and internationally, a collection of works of art, both historic and contemporary, with special but not exclusive reference to Canada, and to further knowledge, understanding and enjoyment of art in general among all Canadians. The Gallery's operations include its affiliate, the Canadian Museum of Contemporary Photography (CMCP).

The Gallery's operations are divided into four mutually supportive activities which work together to meet all aspects of its mandate. These activities are:

Collect

To acquire, preserve, research and record historic and contemporary works of art, both national and international, to represent Canada's visual arts heritage and to use in its programs.

Educate and communicate

To further knowledge, understanding and enjoyment of the visual arts among all Canadians and to make the collections known both in Canada and abroad.

Accommodate

To provide a secure and suitable facility for the preservation and exhibition of the national collections of visual arts that is readily accessible to the public.

Administer

To provide direction, control and effective development and administration of resources.

2. Significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The significant accounting policies are:

(a) Inventories

Inventories are valued at the lower of cost or market value. In the case of books and publications, cost is written down over a maximum of three years to take into account obsolescence.

(b) Capital assets

Capital assets are recorded at cost and amortized using the straight-line method over their estimated useful lives as follows:

Equipment and furniture	5 to 12 years
Leasehold improvements—CMCP	25 years
Building improvements—the Gallery	25 years
Vehicles	5 years

Expenses related to the design and development of exhibits are charged to operations in the year in which the expenses occur.

The original cost of the buildings occupied by the Gallery is not shown in the financial statements. The buildings are owned by the Government of Canada.

(c) Collections

The Gallery holds collections of works of art for the benefit of Canadians, present and future. The collections are shown as an asset at a nominal value of $1,000 on the balance sheet to ensure that the reader is aware of their existence. Works of art purchased for the collections of the Gallery are recorded as an expense in the year of acquisition. Works of art donated to the Gallery are not recorded in the books of account.

(d) Pension plan

The employees of the Gallery participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Gallery contribute equally to the cost of the Plan. This contribution represents the total liability of the Gallery. Contributions in respect of current service are expended during the year in which services are rendered. Admissible past service contributions are expended when paid. The terms of payment are set by the applicable purchase conditions.

The Gallery is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee termination benefits

On termination of employment, employees of the Gallery are entitled to certain benefits provided for under their collective agreement and their conditions of employment. The cost of these benefits is expended in the year in which they are earned.

(f) Trust accounts

The Gallery accounts for receipts of gifts or bequests as trust accounts. Expenditures relating to these funds are restricted and are charged against the relevant portion of the trust accounts in the year they are made. Previously, transactions in the trust accounts were not recorded in the statement of operations. During the year, the Gallery decided to include these transactions of $87,128 (1996—$78,191) retroactively in the statements of operations. There is no effect on the net cost of operations.

(g) Parliamentary appropriations

Parliamentary appropriations for operating and capital expenditures are credited to the Equity of Canada in the year of entitlement. Parliamentary appropriations for the purchase of objects for the collection are initially recorded in the Special Purpose Account in the year of entitlement and are credited to the Equity of Canada at the time the acquisitions are made.

(h) Bookstore and publishing

Expenses for the bookstore and publishing are included in operating expenses.

NATIONAL GALLERY OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

3. Cash and investments

The Gallery makes short-term, low risk investments in the money market. These investments consist of a mix of Government of Canada Treasury Bills, Bankers' Acceptances and Money Market Mutual Funds. The portfolio yielded an average return of 4.05% (6.59% in 1995-96) and the average term to maturity was 89 days (72 days in 1995-96).

The balances at year-end are:

	1997	1996
	(in thousands of dollars)	
Cash and investments		
Cash	1,052	4,128
Money market investments	6,168	2,597
	7,220	6,725

Restricted cash and investments

	1997	1996
	(in thousands of dollars)	
Special purpose accounts		
Cash	32	59
Money market investments	2,839	581
	2,871	640
Trust accounts		
Cash	119	53
Money market investments	2,639	2,498
Long-term receivable—Government of Canada	393	379
	3,151	2,930
	6,022	3,570

4. Capital assets

	1997			1996
	Cost	Accumulated amortization	Net book value	Net book value
	(in thousands of dollars)			
Equipment and furniture	6,464	4,127	2,337	2,501
Leasehold improvements —CMCP	3,981	796	3,185	3,344
Building improvements —the Gallery	2,368	440	1,928	2,024
Vehicles	14	10	4	7
	12,827	5,373	7,454	7,876

5. Accounts payable and accrued liabilities

	1997	1996
	(in thousands of dollars)	
Trade	2,608	2,393
Due to government departments and Crown corporations	656	958
Accrued salaries and vacation pay	858	792
Others	267	361
	4,389	4,504

6. Special purpose account—Purchase of objects for the collections

In 1996-97, Parliament approved a $3,000,000 payment (1995-96—$3,000,000) for the purchase of objects for the collection. The Gallery accumulates these funds, as well as the interest thereon, in a special purpose account which it uses to acquire, when opportunities arise, historically important, unique and high quality works that strengthen the collection.

	1997	1996
	(in thousands of dollars)	
Balance at beginning of year	640	1,358
Parliamentary appropriation	3,000	3,000
Interest	79	143
Total available	3,719	4,501
Purchase of objects for the collection	(848)	(3,861)
Balance at end of year	2,871	640

7. Trust accounts

The Gallery maintains various trust accounts. Most of the funds are to be used for purchases of works of art or other specific activities such as exhibitions, publications, education programs or research.

The following summarizes the transactions for the year:

	1997	1996
	(in thousands of dollars)	
Balance at beginning of year	2,930	2,697
Receipts for the year		
Interest	125	181
Gifts and bequests	183	130
Total	308	311
Expenditure for the year		
Purchase of objects for the collection		9
Other	87	69
Total	87	78
Increase in funds	221	233
Balance at end of year	3,151	2,930

NATIONAL GALLERY OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

8. Equity of Canada

The Equity of Canada represents the book value of assets and liabilities transferred from the former National Museums of Canada as of July 1, 1990 and the accumulated net results of the operations of the Gallery to date.

9. Collection

Acquisition of works of art for the collection were made through the following:

	1997	1996
	(in thousands of dollars)	
Purchase from special purpose account	848	3,861
Purchase from trust accounts		9
Total purchases	848	3,870
Gifts or bequests, at fair market value	1,552	10,867
	2,400	14,737

10. Commitments

As at March 31, 1997, there remains $10,057,000 to be paid pursuant to various agreements. The major portion relates to the remainder of a 49 year lease with the National Capital Commission for the CMCP facility. The future minimum payments are as follows:

	(in thousands of dollars)
1997-98	334
1998-99	808
1999-00	212
2000-01	212
2001-02	212
2002-41	8,279

11. Contingent liabilities

Revenue Canada has challenged certain Goods and Services Tax (GST) Input Tax Credits claimed by the Gallery over the last four years. The issue revolves around whether the Gallery's 'free' general admission policy, which started in October 1993, constitutes an 'exempt supply' under the *Excise Tax Act* and whether the associated Input Tax Credits should be consequently disallowed. The Gallery has objected strongly to this challenged and is seeking clarification of the appropriate GST treatment of federal Crown corporations.

Because of the multiple unresolved issues, it is not clear as to whether Revenue Canada will proceed with an assessment and if so on what basis. Also, because there is a wide range of estimation possibilities, depending on issue resolution, no provision has been made in these financial statements either for a potential liability or for an offsetting appropriation receivable.

12. Related party transactions

Public Works and Government Services Canada makes the payments in lieu of taxes with respect to the Gallery building and surrounding property. These have been evaluated at $3,239,000 (1995-96—$3,327,000) and have not been recorded in the financial statements.

The Gallery is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Gallery enters into transactions with these entities in the normal course of business.

13. Comparative figures

Certain reclassifications have been made to the 1996 comparative figures to conform with the current year's presentation.

NATIONAL GALLERY OF CANADA—*Concluded*

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars) SCHEDULE 1

Salaries and employee benefits	13,532	13,874
Repairs and upkeep of building and equipment	3,661	4,344
Professional and special services	2,975	3,509
Utilities, materials and supplies	2,877	2,842
Protective services	2,354	2,368
Cost of goods sold—Bookstore and publishing	1,361	1,808
Amortization	1,207	1,215
Advertising	967	694
Purchase of works of art for the collection	848	3,870
Postage, freight and cartage	821	539
Travel	729	603
Publications	546	448
Payments in lieu of taxes—CMCP	269	316
Communications	266	267
Library purchases	235	244
Rent—CMCP	212	212
Rentals	90	94
Fellowships	66	80
Miscellaneous	64	76
	33,080	37,403

SCHEDULE OF REVENUE
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars) SCHEDULE 2

	1997	1996
Bookstore and publishing	2,137	2,808
Admissions	543	682
Parking	446	509
Sponsorships	435	320
Interest	280	351
Travelling exhibitions	196	147
Art loans—Recovery of expenses	148	97
Rental of public spaces	137	177
Memberships	112	135
Food services	48	66
Other	154	216
	4,636	5,508
Funds from trust accounts	87	78
	4,723	5,586

NATIONAL MUSEUM OF SCIENCE AND TECHNOLOGY

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements contained in this annual report have been prepared by Management in accordance with generally accepted accounting principles and the integrity and objectivity of the data in these financial statements are Management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as the *Museums Act* and by-laws of the corporation.

The Board of Trustees is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee which includes a majority of members who are not officers of the Corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Trustees. The Board of Trustees has reviewed and approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, audits the financial statements and reports to the Minister responsible for the Corporation.

Geneviève Sainte-Marie
Director

Graham J. Parsons
Director General, Corporate Services

AUDITOR'S REPORT

TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the National Museum of Science and Technology as at March 31, 1997 and the statements of operations, equity of Canada, and changes in financial position for the year then ended. These financial statements are the responsibility of the Museum's management. My responsibility is to express an opinion on these financial statements, based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Museum as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Museum that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Museum.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 6, 1997

NATIONAL MUSEUM OF SCIENCE AND TECHNOLOGY—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash and short-term investments (Note 3)	2,539	2,864
Accounts receivable		
—Government departments	369	506
—Other	201	160
Inventories (Note 4)	437	326
Prepaid expenses	22	36
	3,568	3,892
Trust account (Note 5)	766	712
Collection	1	1
Property and equipment (Note 6)	7,278	6,386
	11,613	10,991

LIABILITIES AND EQUITY OF CANADA	1997	1996
Current		
Accounts payable and accrued liabilities		
—Government departments	563	522
—Other	2,055	1,696
Current portion of accrued employee termination benefits	66	111
Deferred revenue	33	75
	2,717	2,404
Accrued employee termination benefits	802	781
Trust account (Note 5)	766	712
	4,285	3,897
Equity of Canada	7,328	7,094
	11,613	10,991

Approved by Management:

GENEVIÈVE SAINTE-MARIE
Director

GRAHAM PARSONS
Director General, Corporate Services

Approved by the Board of Trustees:

DAVID W. STRANGWAY
Chairperson

LEON F. LOUCKS
Chairperson, Audit Committee

NATIONAL MUSEUM OF SCIENCE AND TECHNOLOGY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Revenue		
National Museum of Science and Technology		
Admissions and memberships	859	871
Commercial operations (Schedule 2)	1,301	1,104
Sponsorship	179	44
Other museum services	430	347
	2,769	2,366
National Aviation Museum		
Admissions and memberships	247	239
Commercial operations (Schedule 2)	366	351
Sponsorship	25	19
Other museum services	185	160
	823	769
Interest	136	186
Total revenue	3,728	3,321
Expenses (Schedule 1)		
National Museum of Science and Technology		
Display facility operation	7,345	6,818
Collection management	5,333	5,278
	12,678	12,096
National Aviation Museum		
Display facility operation	3,377	3,004
Collection management	1,664	2,163
	5,041	5,167
Support activities	4,379	4,038
Amortization	1,142	995
Total expenses	23,240	22,296
Excess of expenses over revenue	19,512	18,975

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Operating activities		
Excess of expenses over revenue	(19,512)	(18,975)
Items not affecting funds		
Amortization	1,142	995
Employee termination benefits	21	46
Loss (gain) on disposal of property and equipment	16	(9)
Change in non-cash operating working capital items	312	(643)
Funds applied to operating activities	(18,021)	(18,586)
Financing activities		
Parliamentary appropriation	19,746	20,773
Investing activities		
Additions to property and equipment (net)	(2,050)	(1,087)
Increase (decrease) in cash and short-term investments	(325)	1,100
Cash and short-term investments at the beginning of the year	2,864	1,764
Cash and short-term investments at the end of the year	2,539	2,864

STATEMENT OF EQUITY OF CANADA
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997	1996
Balance at the beginning of the year	7,094	5,296
Parliamentary appropriation	19,746	20,773
Excess of expenses over revenue	(19,512)	(18,975)
Balance at the end of the year	7,328	7,094

NATIONAL MUSEUM OF SCIENCE AND TECHNOLOGY—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997

1. Authority, mandate and operations

The National Museum of Science and Technology was established by the *Museums Act* on July 1st, 1990, and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

The mandate of the corporation as stated in the *Museums Act* is to foster scientific and technological literacy throughout Canada by establishing, maintaining and developing a collection of scientific and technical objects, with special but not exclusive reference to Canada, and by demonstrating the products and processes of science and technology and their economic, social and cultural relationships with society.

The corporation's operations comprise the National Museum of Science and Technology, the National Aviation Museum and common support activities. Each Museum's operations are divided into two complementary activities:

Display facility operation

The operation of the public facilities of the Museum, including the development and maintenance of exhibits, interpretation, communication and promotion, gift shops, food services and other services to visitors.

Collection management

Curatorial research, cataloguing, documentation, conservation and restoration of the collection, the library, and related services.

2. Accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The significant accounting policies are:

(a) Inventories

Inventories are valued at the lower of cost and net realizable value.

(b) Collection

The collection constitutes the major portion of the corporation's assets but is shown at a nominal value of $1,000 on the balance sheet because of the practical difficulties in reflecting it at a meaningful value. Objects purchased for the collection are recorded as expenses in the year of acquisition. Objects donated to the corporation are not recorded in the books of account.

(c) Property and equipment

Property and equipment are recorded at cost. Capital assets are amortized using the straight-line method over their estimated useful lives as follows:

Building renovations	10 to 25 years
Equipment	5 to 12 years
Office furniture	5 to 10 years

(d) Pension plan

The employees of the corporation participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the corporation contribute equally to the cost of the Plan. This contribution represents the total liability of the corporation. Contributions in respect of current service are expensed during the year in which the service is rendered. The corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Commercial operations

Operating expenses of gift stores, cafeterias and product marketing, including costs relating to personnel, travel, transportation, advertising, building maintenance, rent and utilities, are included in operating expenses.

(f) Employee termination benefits

On termination of employment, employees of the corporation are entitled to certain benefits provided for under their collective agreement and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(g) Parliamentary appropriation

Operating expenses and the acquisition of property and equipment are financed by a parliamentary appropriation which is credited to the equity of Canada in the year to which it applies.

3. Cash and short-term investments

	1997	1996
	(in thousands of dollars)	
Cash	539	314
Short-term investments	2,000	2,550
	2,539	2,864

The corporation investments are limited to 60 days in Schedule "A" banks, and government backed paper. The average rate of return in 1996-97 was 3.75% compared to 5.50% in 1995-96.

4. Inventories

	1997	1996
	(in thousands of dollars)	
Books, pamphlets, replicas and other materials	420	323
Publications in process	17	3
	437	326

NATIONAL MUSEUM OF SCIENCE AND TECHNOLOGY—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

5. Trust account

This account was established by sub-section 15(1)(m) of the *Museums Act*, and is credited with moneys received by the corporation by way of gifts, bequests or otherwise, interest on securities, rent or sales of real property acquired by the corporation by way of gifts, bequests or otherwise. Also an amount representing interest on the balance is credited to the account. The account is charged with amounts expended for the purpose for which such moneys or property were given, bequeathed or otherwise made available to the corporation. These transactions are not included in the statement of operations.

	1997	1996
	(in thousands of dollars)	
Receipts		
Gifts and bequests	28	3
Interest	27	41
Total receipts	55	44
Disbursements	1	
Excess of receipts over disbursements	54	44
Balance at the beginning of the year	712	668
Balance at the end of the year, represented by cash and short-term investments	766	712

6. Property and equipment

	1997			1996
	Cost	Accumulated amortization	Net book value	Net book value
	(in thousands of dollars)			
Building renovations	6,961	1,580	5,381	4,400
Equipment	4,157	3,290	867	859
Office furniture	4,763	3,733	1,030	1,127
	15,881	8,603	7,278	6,386

7. Related party transactions

The corporation is related to all government of Canada departments, agencies and Crown corporations.

The corporation incurred expenses for the work and services provided by other government departments and agencies. These transactions were conducted in the normal course of operations, under the same terms and conditions that applied to outside parties.

As a result of its program review, Agriculture and Agri-Food Canada has decided that it would no longer manage public display facilities at the Central Experimental Farm. The department has transferred the ownership of its farm operation equipment to the Corporation who has undertaken the responsibility of programming at the Central Experimental Farm.

8. Commitments

As at March 31, 1997, the corporation had entered into various agreements mainly for accommodation. The future minimum payments are as follows:

	1997-98	1998-99	1999-05
	(in thousands of dollars)		
Leases	2,180	2,025	13,211
Protection services	488	488	
Total	2,668	2,513	13,211

9. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 1996-97.

NATIONAL MUSEUM OF SCIENCE AND TECHNOLOGY—*Concluded*

OPERATING EXPENSES
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars) SCHEDULE 1

	1997	1996
Personnel costs	10,810	10,262
Professional and special services	2,538	2,550
Leases of buildings	2,175	2,415
Amortization	1,142	995
Gift stores, cafeteria and product marketing	933	1,029
Materials and supplies	800	555
Utilities	797	620
Repair and upkeep of buildings	591	611
Advertising	528	497
Publications	510	357
Protection services	488	478
Repairs and upkeep of equipment	345	268
Property management services	296	315
Travel	203	174
Communications	192	189
Rental of equipment	188	136
Freight express and cartage	185	274
Design and display	175	115
Office supplies and equipment	173	276
Books	91	92
Miscellaneous	40	15
Purchase of objects for the collection	40	73
	23,240	22,296

COMMERCIAL OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars) SCHEDULE 2

	1997	1996
Revenue		
Gift shops	861	884
Food services	284	276
Product marketing	501	279
Rentals	21	16
	1,667	1,455
Cost of sales		
Gift shops	492	481
Food services	125	108
Product marketing	278	533
Rentals	10	7
	905	1,129
Operating costs		
Gift shops	345	290
Food services	176	164
Product marketing	388	161
	909	615
Net loss	(147)	(289)

OLD PORT OF MONTREAL CORPORATION INC.

MANAGEMENT REPORT ON ITS RESPONSIBILITY TOWARD THE FINANCIAL STATEMENTS

The Corporation's Management is responsible for preparing and presenting the financial statements in the annual report. These have been prepared in accordance with generally accepted accounting principles and necessarily contain estimates made by Management to the best of its judgement and for which Management takes responsibility. Management acknowledges its responsibility for choosing accounting principles and methods which are compatible with the Corporation's circumstances. Financial information presented elsewhere in the annual report is consistent with that included in the financial statements.

Management applies internal controls, accounting principles and practices so as to provide reasonable degree of certainty that financial information is relevant and reliable, that the assets it manages are safeguarded and that the transactions of the Corporation have been in compliance with the appropriate authorizations. The Corporation has appointed Fauteux Bruno Bussière Leewarden, Chartered Accountants, to conduct periodic internal audits on the above-mentioned controls. This firm has made its observations and recommendations to Management and to the Audit Committee of the Board of Directors, to which it has unlimited access.

The Board of Directors is responsible for the study and approval of the financial statements, as well as for overseeing how Management discharges its responsibility for the presentation of financial information. The Board exercises this responsibility primarily through the Audit Committee, which is composed exclusively of Directors who are not part of Management nor employed by the Corporation. This committee examines the financial statements with Management and representatives of the Auditor General of Canada, who is appointed as external auditor by the shareholder, before submitting them to the Board for approval. This committee also examines the work plans submitted by the internal and external auditors and meets with them in order to discuss their findings and observations regarding the accounting issues, the audit procedures and the presentation of financial information. The Auditor General of Canada is responsible for auditing the transactions, the accounts and the financial statements of the Corporation and to express an opinion on these financial statements.

Management considers that the financial statements present fairly the financial position of the Corporation and the results of its operations and the changes in the financial position. The Board of Directors has studied and approved the financial statements following a recommendation from the Audit Committee.

Pierre Émond
President and Chief Executive Officer

Dany Bleau, CA
Vice-President,
Finance and Human Resources

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS
AND GOVERNMENT SERVICES

I have audited the balance sheet of the Old Port of Montreal Corporation Inc. as at March 31, 1997 and the statements of revenue and expenditures, Minister's account and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, the articles and the by-laws of the Corporation and the Agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works and Government Services.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 30, 1997

OLD PORT OF MONTREAL CORPORATION INC.—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997

ASSETS	1997	1996	LIABILITIES	1997	1996
	$	$		$	$
Current			Current		
Cash	648,415	1,323,564	Accounts payable	779,577	1,689,890
Accounts receivable	267,015	614,172	Deferred revenue	59,423	41,603
Prepaid expenses	514,162	184,422	Due to Receiver General of Canada (Note 3)	206,373	37,574
				1,045,373	1,769,067
			Provision for employee termination benefits	381,004	342,014
				1,426,377	2,111,081
			Contingencies (Note 7)		
			EQUITY OF CANADA		
			Minister's Account	3,215	11,077
			Capital stock (Note 4)		
	1,429,592	2,122,158		1,429,592	2,122,158

Approved by the Board:

RAYMOND CYR
Director

BERNARD LAMARRE
Director

OLD PORT OF MONTREAL CORPORATION INC.—*Continued*

REVENUE AND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Revenue		
Animation programs	4,059,224	5,834,730
Less: royalties to third parties	321,758	485,730
	3,737,466	5,349,000
Daily and monthly parking	2,247,163	2,346,087
Concessions and exclusive rights	1,667,697	1,995,106
Interest	33,871	81,995
Grant	92,598	123,055
Other	509,269	549,990
	8,288,064	10,445,233
Operating expenditures		
Maintenance of property and space rental	4,470,488	4,113,387
Animation programs	3,154,190	4,685,900
Administration	1,787,686	1,595,342
Communications	2,119,204	1,851,245
	11,531,568	12,245,874
Excess of operating expenditures over revenue	3,243,504	1,800,641
Capital expenditures (Note 5)	258,429	493,275
Excess of expenditures over revenue	3,501,933	2,293,916
Revenue allotted to the Consolidated Revenue Fund of Canada	305,929	354,852
Amount to be funded for the year	3,807,862	2,648,768

CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Operating activities		
Excess of operating expenditures over revenue	(3,243,504)	(1,800,641)
Decrease (increase) in accounts receivable	347,157	(32,706)
Decrease (increase) in prepaid expenses	(329,740)	389,904
Decrease in accounts payable	(910,313)	(337,181)
Increase (decrease) in deferred revenue	17,820	(53,519)
Increase in the provision for employee termination benefits	38,990	8,864
	(4,079,590)	(1,825,279)
Investing activities		
Capital expenditures	(258,429)	(493,275)
Financing activities		
Parliamentary appropriations received	3,800,000	3,500,000
Remittances to the Consolidated Revenue Fund	(137,130)	(751,187)
	3,662,870	2,748,813
Cash		
Increase (decrease) for the year	(675,149)	430,259
Balance at beginning of the year	1,323,564	893,305
Balance at end of the year	648,415	1,323,564

MINISTER'S ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Balance in excess (deficit) at beginning of year	11,077	(840,155)
Amount to be funded for the year	(3,807,862)	(2,648,768)
	(3,796,785)	(3,488,923)
Parliamentary appropriations received	3,800,000	3,500,000
Balance in excess at the end of the year	3,215	11,077

OLD PORT OF MONTREAL CORPORATION INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1997

1. Authority and activities

The Old Port of Montreal Corporation Inc. was incorporated on November 26, 1981 under the *Canada Business Corporations Act* and is a wholly-owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

Effective February 1, 1982, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works and Government Services, the Corporation is responsible for developing and for promoting the development of the lands of the Old Port of Montreal, and for administering, managing, and maintaining the property of Her Majesty located therein. The Corporation fulfils this responsibility in the name and for the account of the Minister of Public Works and Government Services who continues to hold title to the capital assets for the benefit of Her Majesty.

2. Significant accounting policies

(a) Financial statement presentation

The financial statements present transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works and Government Services.

(b) Amount to be funded

All expenditures incurred by the Corporation, net of revenue used for its operations, are reimbursable by the Minister of Public Works and Government Services using a parliamentary appropriation.

The difference between parliamentary appropriations received and the amount to be funded is recorded in the Minister's Account.

(c) Employee termination benefits

On termination of employment, employees of the Corporation are entitled to certain benefits provided for under the salary administration policy of the Corporation. The cost of these benefits is recorded in the year in which they are earned by the employees.

(d) Revenue

Pursuant to the agreement between the Corporation and the Minister of Public Works and Government Services, proceeds from the direct use of capital assets having titles held by the Minister are allotted to the Consolidated Revenue Fund of Canada and are to be remitted to the Receiver General for Canada. Other proceeds are used by the Corporation for its operations.

(e) Expenditures of a capital nature

Expenditures of a capital nature represent costs that significantly increase the value or extend the useful lives of properties administered by the Corporation. They also include costs of demolishing structures. Capital assets are not disclosed in the balance sheet since the Minister of Public Works and Government Services holds title to the capital assets for the benefit of Her Majesty.

(f) Retirement savings plan

The Corporation has established a group retirement savings plan under which a single trust was established with a private sector organization in order to accumulate contributions to provide a retirement income for the employees through individually registered retirement savings plans.The Corporation acts solely as an agent without incurring any liability.

3. Due to Receiver General for Canada

	1997	1996
	$	$
Balance at beginning of the year	37,574	433,909
Proceeds allotted to the Consolidated Revenue Fund of Canada		
Derived from operations		
Monthly parking	211,995	262,022
Rentals	70,432	62,123
Other	23,502	30,707
	305,929	354,852
	343,503	788,761
Remittances	(137,130)	(751,187)
Balance at end of the year	206,373	37,574

4. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada, which may not be transferred without the consent of the Governor General in Council. The authorized share has been issued in consideration of services rendered.

5. Capital expenditures

	1997	1996
	$	$
Current year projects	450,760	1,112,509
Revision of accounting estimates	(192,331)	(493,000)
Recoveries from a third party		(126,234)
Net capital expenditure	258,429	493,275

6. Commitments

As at March 31, 1997, the commitments for operating activities totalled $1,983,421 ($1,856,688 as at March 31, 1996).

7. Contingencies

Various claims have been brought against the Corporation in the normal course of business.

It is the opinion of management that the settlement of these contingencies will not result in any material liabilities to the Corporation. Any loss resulting from an unfavourable decision against the Corporation would be charged to the year during which the Corporation would actually be compelled to pay.

OLD PORT OF MONTREAL CORPORATION INC.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1997—*Concluded*

8. Fair value of financial instruments

The transactions related to accounts receivable and accounts payable are incurred in the normal course of business. The carrying amounts of each of these accounts approximate their fair value because of their short-term maturity. There is no concentration of accounts receivable with any customer and, consequently, the credit risk is low.

9. Non-monetary transactions

The Corporation has granted exclusive rights to some of its sponsors in exchange of publicity. These non-monetary transactions were at arm's length and recorded equally in revenue and in expenditure at the fair value of the assets and services received, estimated at $263,700 in 1996-1997 ($276,200 in 1995-1996).

10. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

11. Cumulative data since November 26, 1981

	Accumulated as at March 31, 1996	1996-97	Accumulated as at March 31, 1997
	$	$	$
Capital expenditures	131,230,834	258,429	131,489,263
Excess of operating expenditures over revenue	33,211,237	3,243,504	36,454,741
Proceeds allotted to the Consolidated Revenue Fund of Canada	4,939,942	305,929	5,245,871
Amount funded by the Minister of Public Works and Government Services	169,382,013	3,807,862	173,189,875

12. Breakdown of accumulated capital expenditures

	Accumulated as at March 31, 1996	1996-97	Accumulated as at March 31, 1997
	$	$	$
Improvement to land and to areas of water	84,327,959	(111,085)	84,216,874
Buildings	22,370,690	195,970	22,566,660
Bridges	4,521,000	10,906	4,531,906
Major wharf repairs	7,955,000		7,955,000
Furniture, urban furniture and equipment	6,887,988	162,638	7,050,626
Substructure and public services	4,689,197		4,689,197
Archaeological relics	479,000		479,000
	131,230,834	258,429	131,489,263

PACIFIC PILOTAGE AUTHORITY

MANAGEMENT REPORT

These financial statements have been prepared by management in accordance with generally accepted accounting principles. The Authority's management is responsible for the integrity and objectivity of the data in these financial statements along with the supporting information contained in the annual report. Management maintains a system of internal control to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors of the Authority is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through an audit committee which meets regularly with management.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Authority and for issuing his report thereon.

D. B. McLennan
Chairman

B. D. Chadwick
Controller

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of the Pacific Pilotage Authority as at December 31, 1996 and the statements of operations, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
January 31, 1997

BALANCE SHEET AS AT DECEMBER 31, 1996
(in thousands of dollars)

ASSETS	1996	1995
Current		
Cash and short-term investments (Note 3)	1,135	2,027
Accounts receivable (Note 3)	3,025	2,606
Prepaid expenses	87	178
	4,247	4,811
Long-term		
Long-term investment (Note 4)	936	
Capital assets (Note 5)	642	769
	1,578	769
	5,825	5,580

LIABILITIES	1996	1995
Current		
Accounts payable and accrued liabilities (Note 3)	2,821	2,770
Long-term		
Accrued employee termination benefits	656	642
	3,477	3,412
EQUITY OF CANADA		
Contributed capital	806	806
Retained earnings	1,542	1,362
	2,348	2,168
	5,825	5,580

Approved by the Authority:

D. B. McLELLAN
Chairman

K. B. HALLAT
Member

PACIFIC PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Revenues		
Pilotage charges	35,967	34,029
Interest and other income	72	192
	36,039	34,221
Expenses		
Contract pilots' fees	24,916	24,263
Operating costs of pilot boats	3,812	3,872
Transportation and travel	3,605	3,594
Staff salaries and benefits	1,658	1,661
Pilots' salaries and benefits	951	949
Professional and special services	213	287
Rentals	204	209
Amortization	185	158
Utilities, materials and supplies	128	122
Communications	97	93
Computer services	69	134
Repairs and maintenance	21	21
	35,859	35,363
Net income (loss) for the year	180	(1,142)

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Operating activities		
Net income (loss) for the year	180	(1,142)
Items not affecting cash		
Amortization	185	158
Employee termination benefits	14	64
Loss on disposal of capital assets	4	
Change in non-cash operating components of working capital	(277)	998
Cash generated by operating activities	106	78
Investing activities		
Additions to capital assets	(62)	(107)
Increase in long-term investment	(936)	
	(998)	(107)
Decrease in cash	(892)	(29)
Cash and short-term investments at beginning of the year	2,027	2,056
Cash and short-term investments at end of the year	1,135	2,027

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Appropriated		
Balance at beginning and end of the year	500	500
Unappropriated		
Balance at beginning of the year	862	2,004
Net income (loss) for the year	180	(1,142)
Balance at end of the year	1,042	862
	1,542	1,362

PACIFIC PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

1. Authority and objectives

The Pacific Pilotage Authority was established in 1972 pursuant to the *Pilotage Act*. The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act further provides that the tariffs of pilotage charges shall be fair and reasonable and consistent with providing a revenue, together with any revenue from other sources, sufficient to permit the Authority to operate on a self-sustaining financial basis.

Pilotage services on the Fraser River are provided by employee pilots and in other coastal waters under a contract with a local licensed pilots' company.

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act* and is not subject to any income taxes.

2. Significant accounting policies

Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Pilot boats	25 years
Equipment—Communication and other	10 years
—Computer	3 years
Leasehold improvements	15 years

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these payments is estimated and recorded in the accounts as the benefits accrue to the employees.

Contributed capital

Amounts representing the values assigned to capital assets transferred from Canada in 1972 and the cost of any property and equipment financed from parliamentary appropriations are shown as contributed capital.

Appropriated retained earnings

Amounts are appropriated from time to time by the Authority to provide for extraordinary costs arising from renewal or acquisition of capital assets and for contingencies.

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. These contributions represent the total liability of the Authority and are recognized in the accounts on a current basis.

3. Financial instruments

The Authority invests all of its short-term funds in an overnight money market account with a Canadian chartered bank (yield 1-2%).

Due to the short-term nature of accounts receivable, accounts payable and accrued liabilities, their fair value approximates book value.

There is no concentration of accounts receivable with any one customer, and accordingly there is no significant credit risk.

4. Long-term investment

The Authority invests in government-backed securities only. Its investment portfolio as at December 31, 1996 is comprised of a $936,000 Export Development Corporation Bond (yield 3.71%) which matures March 25, 1998. The fair market value of the investment as at December 31, 1996 approximates the net book value.

5. Capital assets

	1996			1995
	Cost	Accumulated amortization	Net	Net
	(in thousands of dollars)			
Buildings	110	60	50	53
Pilot boats	1,306	1,080	226	266
Equipment —Communication and other	650	335	315	356
—Computers	486	462	24	64
Leasehold improvements	81	54	27	30
	2,633	1,991	642	769

6. Commitments

The Authority has a long-term operating lease obligation for office accommodation aggregating $260,280 to December 31, 1999 at a base annual rent of $86,760. The obligation also calls for pro rata share of annual operating costs estimated at $35,000 for 1997.

The Authority has an operating lease agreement for the services at Cape Beale of a manned pilot boat until December 31, 1998. For 1997 rent will be $375,381. The rent for 1998 has yet to be determined.

The Authority has a commitment to the BC Coast Pilots Ltd. to contribute $125,000 per annum towards pilot training costs, for the duration of the 5 year contract between the two parties, commencing January 1, 1997.

PETRO-CANADA LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF FINANCE

I have audited the balance sheet of Petro-Canada Limited as at December 31, 1996 and the statement of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Petro-Canada Limited Act* and the by-laws of the corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 27, 1997

BALANCE SHEET
AS AT DECEMBER 31, 1996
(stated in millions of dollars)

ASSETS	1996	1995
Current assets		
Cash and short-term deposits	3	3
Accrued interest receivable	9	9
Current portion of investments	11	79
	23	91
Investments (Note 5)	425	433
	448	524

LIABILITIES AND SHAREHOLDER'S EQUITY	1996	1995
Current liabilities		
Current portion of long-term debt		66
Accrued interest payable	9	12
	9	78
Deferred revenue (Note 4)	27	31
Long-term debt (Note 6)	409	413
Shareholder's equity (Note 7)	3	2
	448	524

Approved by the Board:

ROBERT HAMILTON
Director

JOY F. KANE
Director

PETRO-CANADA LIMITED—*Continued*

STATEMENT OF OPERATIONS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1996
(stated in millions of dollars)

	1996	1995
Revenue		
Interest revenue	40	43
Expenses		
Interest on long-term debt	39	42
Net income	1	1
Deficit at beginning of year	(27)	(28)
Deficit at end of year	(26)	(27)

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996
(stated in millions of dollars)

	1996	1995
Operating activities		
Net income	1	1
Non-cash items included in income		
Accrued interest	(13)	(13)
Amortization of premium	2	2
Amortization of deferred revenue	(3)	(5)
	(13)	(15)
Investing activites		
Proceeds from sale of investments	86	28
Financing activities		
Repayment of long-term debt	(73)	(12)
Foreign exchange translation adjustment, net		(1)
	(73)	(13)
Increase in cash and short-term deposits		
Cash and short-term deposits at beginning of year	3	3
Cash and short-term deposits at end of year	3	3

PETRO-CANADA LIMITED—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996
(tables are stated in millions of dollars)

1. The Corporation

Petro-Canada Limited ("the Corporation") is an agent Crown corporation named in Part II of Schedule III of the *Financial Administration Act*. The objective of the Corporation is to meet its obligations on its outstanding bonds and its current and future operating costs from the revenues generated by its investment portfolio and cash reserves.

Pursuant to an Order-in-Council and subsequent amendments to income tax legislation, effective July 3, 1991, the Corporation became an exempt corporation for purposes of the *Income Tax Act* and is not liable for income taxes after that date.

2. Summary of significant accounting policies

(a) Translation of foreign currency

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Related interest revenue and expense are translated at rates of exchange in effect at the respective transaction dates. Investments hedge foreign currency fluctuations on long-term debt. Unrealised exchange gains or losses arising on translation of investments are offset against those relating to the long-term debt with the difference recorded in the investment component of the balance sheet.

(b) Investments

Investments are carried at cost less amortization of premiums on acquisition. Premiums on acquisition are amortized on a straight-line basis over the life of the related bond. Strip bonds are carried at cost plus accrued interest.

(c) Deferred revenue

Deferred revenue is amortized on a straight-line basis over the life of the related debt.

3. Related party transactions

The Corporation holds investments with a face value of Canadian $244 million (1995—Canadian $243 million) in an agent Crown corporation of the Government of Canada and has Canadian $3 million on deposit with the Government of Canada (1995—$-). The investments earn interest of Canadian $21 million per annum. The deposit earned interest of Canadian $133 000 during 1996. The interest has been reflected in the statement of operations as interest revenue. At December 31,1996, Canadian $9 million was owing to Petro-Canada Limited for interest earned during 1996 (1995 Canadian $9 million).

4. Debt restructuring

In May 1991, the Corporation entered into a debt restructuring agreement ("the Agreement") with Petro-Canada and the Government of Canada whereby Petro-Canada was to prepay to the Corporation the outstanding debentures receivable due to the Corporation based on the market value of the debentures on the date of prepayment. At December 31, 1992, Petro-Canada had prepaid all debentures receivable due to the Corporation thereby completing the repayment required under the terms of the Agreement. Proceeds from the prepayments were used to retire long-term debt of the Corporation. Where outstanding debentures in long-term debt could not be retired, investments were purchased by the Corporation to meet the future obligations on such debt.

Under the Agreement Petro-Canada paid to the Corporation a prepayment premium of US $13 million (Canadian $15 million) in consideration of the costs associated with the prepayment of debentures receivable.

The Corporation has deferred the portion of the gain on retirement of debentures receivable and the portion of the prepayment premium associated with the long-term debt not redeemed.

5. Investments

The investments are high quality government debt securities that are intended to be held until maturity and as a result no adjustments are made for any decreases in market value. Proceeds from interest and principal maturity of the investments approximate the Corporation's interest and principal obligations of the debentures in long-term debt both in respect of the timing of payments and the currency of payments.

Credit Risk: About 99% of the securities in the investment portfolio are US government and agency securities and Export Development Corporation notes, which are considered to be low risk, and the other 1% are provincial government securities.

Terms and Conditions: Strip bonds, which receive interest at maturity, earn effective interest of 5.23% to 8.61%. These bonds mature between 1997 and 2018. Coupon bonds receive interest semi-annually at interest rates of 7.95% to 10.35%. These bonds mature between 1997 and 2017.

Fair Value: The fair value of the investments is Canadian $477 million at December 31,1996 (Canadian $571 million at December 31, 1995). The fair value is determined by quoted market prices.

PETRO-CANADA LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996—*Concluded*

6. Long-term debt

	Maturity	1996	1995
In United States dollars			
7.25% unsecured debentures (US $48 million)	1996		66
9.50% unsecured debentures (US $88 million)	2003	120	119
8.60% unsecured debentures (US $158 million)	2010	216	215
8.25% unsecured debentures (US $33 million)	2016	46	52
9.70% unsecured debentures (US $16 million)	2018	22	22
8.80% unsecured debentures (US $4 million)	2019[1]	5	5
		409	479
Less: Current portion of long-term debt			66
		409	413

[1] Redeemable, at face value, in 2004 at the option of the holder thereof.

There is no repayment of long-term debt in the next five years.

The fair value of the long-term debt portfolio is Canadian $473 million at December 31,1996 (Canadian $575 million at December 31, 1995). The fair value is determined by the discounted cash flow method.

7. Shareholder's equity

	1996	1995
Capital	2,727	2,727
Deficit	(26)	(27)
	2,701	2,700
Shareholder's equity attributed to investment in Petro-Canada transferred to the Government of Canada in 1991	(2,698)	(2,698)
	3	2

Authorized Capital

(a) 71 188 common shares with a par value of one hundred thousand dollars each, and

(b) Preferred shares issued to the Government of Canada provided that the amount of such shares together with any loans received, and outstanding, from the Consolidated Revenue Fund of the Government of Canada is not in excess of one billion dollars. These shares have a par value of one dollar each, are redeemable at par at the option of the Corporation, carry no stated rate of dividend and are non-cumulative.

Issued to the Government of Canada

	Number of Shares	1996	1995
Common shares	17,540	1,754	1,754
Preferred shares	972,771,853	973	973
Total capital		2,727	2,727

8. Comparative figures

Certain figures have been reclassified to conform with the current year presentation.

PORT OF QUÉBEC CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID ANDERSON, P.C., M.P.,
MINISTER OF TRANSPORT

We have audited the balance sheet of Port of Québec Corporation as at December 31, 1996 and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

We further report that, in our opinion, the transactions of the Corporation that have come to our notice in the course of our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and with the charter and by-laws of the Corporation.

Mallette Maheu
General Partnership Chartered Accountants

Québec, Canada
January 24, 1997

BALANCE SHEET AS AT DECEMBER 31, 1996

ASSETS	1996	1995
	$	$
Current assets		
Cash	230,735	395,523
Short-term investments (Note 3)	4,477,857	1,495,144
Accounts receivable	2,362,959	2,219,736
Materials and supplies	217,506	155,994
	7,289,057	4,266,397
Investments (Note 3)	3,684,570	4,678,047
Fixed assets (Note 4)	50,973,332	52,612,423
	61,946,959	61,556,867

LIABILITIES	1996	1995
	$	$
Current liabilities		
Accounts payable and accrued liabilities	1,230,174	1,054,038
Grants-in-lieu of municipal taxes	148,275	174,003
Deferred revenues	880,467	887,627
Current portion of long-term debt		174,838
	2,258,916	2,290,506
Long-term debt		
Accrued employee benefits	595,000	815,000
Loans from Interport Loan Fund (Notes 5 and 6)		6,142,699
	595,000	6,957,699
	2,853,916	9,248,205
EQUITY OF CANADA		
Contributed capital (Note 6)	58,169,735	51,852,198
Surplus	923,308	456,464
	59,093,043	52,308,662
	61,946,959	61,556,867

Contingencies (Note 8).

On behalf of the Board:

RENÉ PAQUET
Chairman
Officer

ROSS GAUDREAULT
President and Chief Executive Officer

PORT OF QUÉBEC CORPORATION—*Continued*

STATEMENT OF EARNINGS AND SURPLUS
YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Revenue from operations	12,748,250	12,282,871
Expenses		
Operating and administrative	7,776,192	7,355,615
Charges from National Office	417,357	528,539
Grants-in-lieu of municipal taxes	1,247,625	1,269,404
	9,441,174	9,153,558
Earnings before depreciation and financial expenses	3,307,076	3,129,313
Depreciation of fixed assets	3,200,139	2,966,118
Earnings before financial expenses	106,937	163,195
Financial expenses (income)		
Interest expense	127,853	531,775
Investment income	(487,760)	(403,811)
	(359,907)	127,964
Earnings for the year	466,844	35,231
Surplus at beginning of year	456,464	421,233
Surplus at end of year	923,308	456,464

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Operating activities		
Earnings for the year	466,844	35,231
Operating items not involving cash		
Depreciation of fixed assets	3,200,139	2,966,118
Accrued employee benefits	(220,000)	(103,000)
Other	(30,124)	(36,271)
	3,416,859	2,862,078
Net change in non-cash components of working capital	(61,487)	(356,239)
Net funds from operations	3,355,372	2,505,839
Financing activities		
Reimbursement of loans from Interport Loan Fund		(161,577)
Net funds used for financing		(161,577)
Investing activities		
Investment in Canadian bonds	1,000,000	(2,178,250)
Additions to fixed assets	(1,577,215)	(453,012)
Proceeds from disposal of fixed assets	39,768	22,005
Net funds used for investment	(537,447)	(2,609,257)
Increase (decrease) in cash position	2,817,925	(264,995)
Cash position at beginning of year	1,890,667	2,155,662
Cash position at end of year	4,708,592	1,890,667

Cash position consists of cash and short-term investments.

PORT OF QUÉBEC CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996

1. Statutes of incorporation

The Port of Québec Corporation was incorporated on June 1, 1984, under section 6.2(1) of the *Canada Ports Corporation Act*. The Corporation is exempt from income taxes.

2. Significant accounting policies

Investments

Investments, which are guaranteed Securities of Canada, are shown at amortized cost whereby premiums and discounts from par value are amortized over the periods to maturity.

Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants received from Canada and from third parties for capital projects are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line commencing with the year the asset becomes operational, using the following annual rates:

Dredging	2.5-6.7%
Berthing structures	2.5-10%
Buildings	2.5-10%
Utilities	3.3-10%
Roads and surfaces	2.5-10%
Machinery and equipment	5-20%
Office furniture and equipment	20%
Projects in progress	0% to 20%

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

Grants-in-lieu of municipal taxes

Grants-in-lieu of municipal taxes are estimated based on municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years under collective agreements, or in accordance with its policy.

Fair value of financial instruments

The fair value of financial instruments other than investments, namely cash, accounts receivable and liabilities, is believed to equal their carrying amounts.

3. Investments

Short-term investments of $4,447,857 consist of guaranteed Securities of Canada and as at December 31, 1996, their fair value is $4,584,637.

Long-term investments of $3,684,570 consist of Canada bonds and as at December 31, 1996, their fair value is $3,961,695.

4. Fixed assets

	1996			1995
	Cost	Accumulated depreciation	Net value	Net value
	$	$	$	$
Land	11,155,836		11,155,836	11,155,836
Dredging	4,561,341	4,175,795	385,546	413,608
Berthing structures	24,482,884	20,275,273	4,207,611	4,332,888
Buildings	42,551,877	23,313,666	19,238,211	20,311,918
Utilities	20,041,220	7,924,292	12,116,928	12,949,151
Roads and surfaces	6,507,709	5,331,396	1,176,313	1,204,030
Machinery and equipment	1,103,687	705,573	398,114	302,763
Office furniture and equipment	730,032	611,446	118,586	60,786
Projects in progress	2,176,187		2,176,187	1,881,443
	113,310,773	62,337,441	50,973,332	52,612,423

Projects in progress include an amount of $1,580,000 for studies and construction plans. Management believes that these costs will be charged to specified fixed assets.

PORT OF QUÉBEC CORPORATION—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Concluded*

5. Loans from Interport Loan Fund

	1996	1995
	$	$
Loans bearing interest 8.5% and 8.73%, payable in annual installments of $372,512 including interest, written off in 1996		3,266,328
Loans bearing interest 8.07% and 7.54%, payable in annual installments of $320,839 including interest, written off in 1996		3,051,209
		6,317,537
Current portion of long-term debt		174,838
		6,142,699

6. Contributed capital

As of March 31, 1996, loans from the Interport Loan Fund have been forgiven for an amount of $6,317,537 which has been credited to contributed capital.

7. Related party transactions

During the year, the Corporation entered into transactions with related entities including various departments, government organizations and Crown corporations.

Principally, the Corporation earned rental revenues of $638,000 (1995—$606,000) from related entities. The expenses paid to related parties mainly consist in reimbursements of $417,000 (1995—$529,000) to Canada Ports Corporation as its share of the Corporation's head office expenses.

The Corporation has accounts payable of $243,000 (1995—$229,000) and accounts receivable of $203,000 (1995—$118,000) with the same related parties.

8. Contingencies

Claims for an estimated amount of approximately $5,000,000 have been received by the Corporation concerning the ownership of certain lands. Any amount payable in connection with those claims will be capitalized to the cost of land.

In the Corporation's view, its position is defensible and the final outcome of such claims should not result in any material loss.

9. Transportation system review

The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation in 1996 of a new *Canada Marine Act* superseding the *Canada Ports Corporation Act*.

At this time, the impact upon the Corporation is not known, but it is not expected to have a significant impact on operations.

10. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

PRINCE RUPERT PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID ANDERSON, P.C., M.P.,
MINISTER OF TRANSPORT

We have audited the balance sheet of Prince Rupert Port Corporation as at December 31, 1996 and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, and the letters patent and by-laws of the Corporation.

KPMG
Chartered Accountants

New Westminster, Canada
January 28, 1997

BALANCE SHEET AS AT DECEMBER 31, 1996

ASSETS	1996	1995
	$	$
Current assets		
Cash	1,495,708	37,538
Investments (Note 2)	14,811,561	13,894,726
Accounts receivable	1,519,194	1,486,888
Materials and supplies	153,162	135,661
	17,979,625	15,554,813
Capital assets (Note 3)	94,278,897	96,174,864
	112,258,522	111,729,677

LIABILITIES AND EQUITY OF CANADA	1996	1995
	$	$
Current liabilities		
Accounts payable and accrued liabilities	338,475	303,368
Grants in lieu of municipal taxes	910,247	791,682
Deferred revenues	275,391	289,932
Current portion on loans from Canada	371,545	489,724
	1,895,658	1,874,706
Loans from Canada (Note 4)	9,625,656	14,844,753
EQUITY OF CANADA		
Contributed capital (Note 4)	84,611,805	79,611,805
Surplus	16,125,403	15,398,413
	100,737,208	95,010,218
	112,258,522	111,729,677

Commitments (Note 5).
See accompanying notes to financial statements.

On behalf of the Board:

PETER LESTER
Chairman

DONALD H. KRUSEL
President and Chief Executive Officer

PRINCE RUPERT PORT CORPORATION—*Continued*

STATEMENT OF EARNINGS AND SURPLUS
YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Revenue from operations	12,514,232	12,643,829
Expenses		
Contractual services	4,985,316	5,031,951
Operating and administrative	3,266,854	3,141,048
Amortization	2,335,484	2,385,465
Grants in lieu of municipal taxes	797,755	844,120
	11,385,409	11,402,584
Earnings from operations	1,128,823	1,241,245
Other earnings (expense)		
Interest	794,563	1,033,356
Interest expense	(1,180,734)	(1,617,983)
	(386,171)	(584,627)
Net earnings	742,652	656,618
Surplus, beginning of year	15,398,413	14,769,681
	16,141,065	15,426,299
Dividend to Canada	15,662	27,886
Surplus, end of year	16,125,403	15,398,413

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Cash provided by (used in):		
Operations		
Net earnings	742,652	656,618
Items not involving cash		
Amortization	2,335,484	2,385,465
Changes in non-cash operating working capital	89,324	140,089
	3,167,460	3,182,172
Financing		
Increase in contributed capital	5,000,000	
Decrease in loans from Canada	(5,337,276)	(444,255)
Dividend to Canada	(15,662)	(27,886)
	(352,938)	(472,141)
Investment		
Purchase of capital assets	(439,517)	(917,538)
Increase in cash position	2,375,005	1,792,493
Cash position, beginning of year	13,932,264	12,139,771
Cash position, end of year	16,307,269	13,932,264
Cash position is defined as		
Cash	1,495,708	37,538
Investments	14,811,561	13,894,726
Cash position	16,307,269	13,932,264

See accompanying notes to financial statements.

PRINCE RUPERT PORT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996

Local port corporation

The Prince Rupert Port Corporation was established effective June 1, 1984 as a local port corporation pursuant to the *Canada Ports Corporation Act*. The Corporation is exempt from income taxes.

On June 1, 1984, all the assets and liabilities of Canada Ports Corporation relating to the Port of Prince Rupert were transferred to the Corporation at their book value as recorded by Canada Ports Corporation.

1. Significant accounting policies

(a) Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

(b) Capital assets

Capital assets are recorded at cost. Amortization is calculated on the straight-line basis commencing with the year the asset becomes operational, at rates based on the estimated useful lives of the assets as follows:

Dredging	5%
Berthing structures	2.5-10%
Buildings	5-10%
Roads and surfaces	3.3-10%
Utilities	5-10%
Machinery and equipment	5-100%
Office furniture and equipment	20-33.3%

(c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(d) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is estimated based on municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Government Services Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(e) Employee benefits

The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years.

2. Investments

	1996	1995
	$	$
Amortized cost	14,811,561	13,894,726
Market value	14,845,125	13,895,453

PRINCE RUPERT PORT CORPORATION—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Concluded*

3. Capital assets

	1996			1995
	Cost	Accumulated amortization	Net	Net
	$	$	$	$
Land	63,748,741		63,748,741	63,748,741
Dredging	332,187	106,428	225,759	242,563
Berthing structures	36,449,770	11,789,570	24,660,200	25,836,956
Buildings	5,631,495	2,514,558	3,116,937	3,469,586
Roads and surfaces	7,183,357	5,284,511	1,898,846	2,269,596
Utilities	2,727,305	2,516,006	211,299	256,976
Machinery and equipment	2,396,780	2,319,624	77,156	173,754
Office furniture and equipment	414,023	359,097	54,926	95,952
Construction in progress	285,033		285,033	80,740
	119,168,691	24,889,794	94,278,897	96,174,864

4. Loans from Canada

	1996	1995
	$	$
Interest-bearing loans at 9.80% to 10.40% repayable in blended annual instalments, maturing in 2010	9,997,201	15,334,477
Less current portion	371,545	489,724
	9,625,656	14,844,753

Principal payment requirements over the next five years are approximately as follows:

	$
1997	372,000
1998	409,000
1999	451,000
2000	497,000
2001	547,000
	2,276,000

In July, 1996, Treasury Board approved the forgiveness to the Corporation of $5,000,000 on loans from Canada which was effective March 31, 1996. Accordingly, the $5,000,000 was transferred from loans from Canada to contributed capital.

5. Commitments

The Corporation rents its premises under an operating lease which expires April 30, 1997. The future rent payable to the expiry date is approximately as follows:

	$
1997	25,000

6. Related party transactions

(a) During the year, the Corporation recorded lease revenue of $1,723,047 (1995—$1,802,973) from Ridley Terminals Inc., a company which is a wholly-owned subsidiary of Canada Ports Corporation. At December 31, 1996, accounts receivable included $124,142 (1995—$380,939) from Ridley Terminals Inc.

(b) During the year, the Corporation paid $356,321 (1995—$451,191) to Canada Ports Corporation as its share of that Corporation's head office expense. At December 31, 1996, accounts payable included $20,430 (1995—$Nil) to Canada Ports Corporation.

QUEENS QUAY WEST LAND CORPORATION

AUDITORS' REPORT

TO THE MINISTER OF PUBLIC WORKS
AND GOVERNMENT SERVICES

I have audited the balance sheet of Queens Quay West Land Corporation as at March 31, 1997 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 9, 1997

BALANCE SHEET
AS AT MARCH 31

ASSETS	1997	1996
	$	$
Current assets		
Cash and short-term investments (Note 7)	2,767,217	3,519,742
Receivables and other assets	252,572	173,379
	3,019,789	3,693,121
Non-current assets		
Deferred development costs (Note 2)		2,120,024
Capital assets (Note 5)		9,119
Land	1	1
	1	2,129,144
	3,019,790	5,822,265

LIABILITIES AND SHAREHOLDER'S DEFICIENCY	1997	1996
	$	$
Current liabilities		
Accounts payable and accrued liabilities	1,917,353	2,554,789
Loans from Canada (Note 6)	45,800,000	45,800,000
Shareholder's deficiency		
Share capital (Note 8)	1	1
Contributed capital	1,000,000	1,000,000
Deficit	(45,697,564)	(43,532,525)
	(44,697,563)	(42,532,524)
Contingencies (Note 4)		
	3,019,790	5,822,265

See accompanying notes to financial statements.

On behalf of the Board:

DAVID F. ELLIS
Director

ANNE MORASH
Director

QUEENS QUAY WEST LAND CORPORATION—*Continued*

STATEMENT OF OPERATIONS AND DEFICIT FOR THE YEAR ENDED MARCH 31

	1997	1996
	$	$
Corporate and commercial operations		
Revenues		
Parking income	737,777	1,464,712
Commercial and other income	858,434	1,199,709
Interest	143,184	367,725
	1,739,395	3,032,146
Expenses		
Commercial management	1,377,668	1,992,612
Corporate administration	150,519	284,317
	1,528,187	2,276,929
Net corporate and commercial income	211,208	755,217
Development operations (Note 3)		
Land conveyances		435,992
Period development costs	2,376,247	2,966,825
Net development expense	2,376,247	3,402,817
Parliamentary appropriations from Canada for operating subsidy to Harbourfront Centre	6,700,000	7,500,000
Operating contributions to Harbourfront Centre	(6,700,000)	(7,500,000)
Net loss for the year	(2,165,039)	(2,647,600)
Deficit, beginning of year	(43,532,525)	(40,884,925)
Deficit, end of year	(45,697,564)	(43,532,525)

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31

	1997	1996
	$	$
Operating activities		
Net loss for the year	(2,165,039)	(2,647,600)
Amortization	9,119	4,386
Deferred development costs	2,120,024	271,636
	(35,896)	(2,371,578)
Receivables and other assets	(79,193)	127,585
Accounts payable and accrued liabilities	(637,436)	(27,793)
	(752,525)	(2,271,786)
Financing activities		
Parliamentary appropriations from Canada	6,700,000	7,500,000
Contributions to Harbourfront Centre	(6,700,000)	(7,500,000)
Decrease in cash and short-term investments	(752,525)	(2,271,786)
Cash and short-term investments, beginning of year	3,519,742	5,791,528
Cash and short-term investments, end of year	2,767,217	3,519,742

See accompanying notes to financial statements.

QUEENS QUAY WEST LAND CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997

1. The Corporation

Queens Quay West Land Corporation (the "Corporation"), incorporated under the *Canada Business Corporations Act* December 21, 1984, is a Crown corporation listed under Part I of Schedule III of the *Financial Administration Act*. The share capital of the Corporation is held by Her Majesty the Queen in Right of Canada ("Canada") as represented by the Minister of Public Works and Government Services. Legislation dealing with the sale of the Corporation's assets and the subsequent dissolution of the Corporation received royal assent in November 1991. The Corporation is exempt from corporate income tax.

The Corporation operates the Harbourfront site (the "Site") under a Management Agreement with Canada. The site, totalling approximately 100 acres, was originally held by Canada. In recent years, much of the land has been conveyed to the City of Toronto with the intended use being parkland and public infrastructure. Of the original 100-acre site, the Corporation currently holds only two properties, consisting of approximately 5.8 acres.

The Corporation's mandate is to dissolve itself subsequent to the fulfilment of all its remaining obligations. In 1996, the management of the Corporation was transferred to Canada Lands Company CLC Limited.

Agreements with Canada permit the sale or conveyance by the Corporation of certain remaining real estate assets with the proceeds to be used to assist the Corporation in discharging its obligations. The Corporation has received significant financial support from Canada and continues to be dependent on Canada to ensure that the Corporation's obligations and commitments are met as they come due.

In addition to the related party transactions disclosed elsewhere in these financial statements, the Corporation enters into transactions with Canada and other Crown corporations in the normal course of business.

2. Accounting policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies of the Corporation are as follows:

(a) Revenue recognition

Revenues from commercial activities are recognized as the related services are provided.

(b) Capital assets

Capital assets are recorded at cost. The capital assets outstanding from the prior year were amortized over their useful lives.

(c) Land

Transfers of land to the Corporation from Canada required to facilitate certain development agreements are recorded at a nominal cost.

(d) Deferred and period development costs

All development proceeds and costs directly attributable to a project are deferred until approval of the related development agreement is received from Canada or the project is transferred to a third party. Costs related to parkland and public infrastructure are deferred until title is passed to the appropriate local or regional governments.

Costs related to development activities, parkland and public infrastructures not directly attributable to a project are recorded in the Statement of Operations as period development costs.

(e) Short-term investments

Short-term investments are carried at cost.

3. Development operations

In the current year, deferred development costs of approximately $2.1 million have been written off. These costs related primarily to three development properties which have been conveyed to the City of Toronto during the year.

The remaining $0.3 million of period development costs relate to administrative costs for the conveyance of the properties to the City of Toronto.

4. Contingencies

As a result of agreements entered into by the Corporation providing for land conveyances and exchanges, the Corporation is contractually obligated for certain contingent liabilities concerning capital projects, payments to the City for parks development, road costs, environmental costs and other indemnities. The Corporation, pursuant to the Implementation Agreement with the City of Toronto, is required to pay $13.5 million should the two remaining properties be sold. The timing of the sale of these properties is not in the foreseeable future.

The Corporation is a defendant in certain lawsuits. In the opinion of management, these actions will not have a material adverse effect on the financial position of the Corporation.

5. Capital assets

	1997	1996
	$	$
Equipment	369,822	369,822
Less: accumulated amortization	369,822	360,703
		9,119

QUEENS QUAY WEST LAND CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

6. Loans from Canada

The loans from Canada are non-interest bearing and are due and payable March 31, 2004. The Corporation may prepay the loan principal at anytime without penalty upon fourteen days prior notice. The fair value of the loan is $30 million (1996—$26 million) on a discounted basis. Upon the disposal of any real property, the Corporation must use the net proceeds realized to repay the loans to the extent possible. At March 31, 1997 the face value of the loans exceeded the value of the Corporation's assets. However, included in these assets are two properties carried at a nominal value of $1. Given the volatility of the real estate market, the extent to which the Corporation will have assets available to satisfy its loan obligations in 2004 is uncertain.

7. Short-term investments

The Corporation invests in the short-term money market. The overall portfolio yield for the year was 4.6% (1996—7.8%). All instruments held in short-term investments are rated R1-middle or better by the Dominion Bond Rating Service. The average term to maturity is 30 to 90 days. The fair market value of short-term investments as at March 31, 1997 and 1996 approximated the net book value.

8. Share capital

The authorized share capital of the Corporation consists of 500,000 (1996—500,000) common shares without par value of which 215,500 (1996—215,500) shares are issued and fully paid for consideration of $1 (1996—$1).

9. Reclassification of comparative figures

Certain 1996 comparative figures have been reclassified to conform with the presentation adopted in 1997.

ROYAL CANADIAN MINT

MANAGEMENT REPORT

The financial statements contained in this annual report have been prepared by Management in accordance with generally accepted accounting principles in Canada and the integrity and objectivity of the data in these financial statements are Management's responsibility.

Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as the *Royal Canadian Mint Act* and by-laws of the corporation.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee which includes a majority of members who are not officers of the corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

The corporation's external auditor, the Auditor General of Canada, audits the financial statements and reports to the Minister responsible for the Royal Canadian Mint.

Danielle V. Wetherup
President and Master of the Mint

Beverley A. Lepine
Vice-President, Administration and Finance

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS AND GOVERNMENT SERVICES

I have audited the balance sheet of the Royal Canadian Mint as at December 31, 1996 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Royal Canadian Mint Act* and by-laws of the corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 24, 1997

ROYAL CANADIAN MINT—*Continued*

BALANCE SHEET AS AT DECEMBER 31, 1996
(in thousands of dollars)

ASSETS	1996	1995
Current		
Cash and short-term investments	1,203	
Accounts receivable	8,414	13,189
Prepaid expenses	1,402	1,228
Inventories (Note 3)	27,975	32,309
	38,994	46,726
Capital assets (Note 4)	46,485	43,992
	85,479	90,718

LIABILITIES	1996	1995
Current		
Bank indebtedness		3,386
Accounts payable	17,713	18,397
Current portion of loans (Note 5)	76	3,096
Deferred revenues	1,358	655
	19,147	25,534
Long-term		
Loans (Note 5)	22	98
Provision for employee termination benefits	5,465	5,769
	5,487	5,867
SHAREHOLDER'S EQUITY		
Share capital (authorized and issued, 4,000 non-transferable shares)	40,000	40,000
Retained earnings	20,845	19,317
	60,845	59,317
	85,479	90,718

Approved by Management:

DANIELLE V. WETHERUP
President and Master of the Mint

BEVERLEY A. LEPINE
Vice-President, Administration and Finance

Approved on behalf of the Board of Directors:

DR. JOSÉ A. BLANCO
Chairman

ROYAL CANADIAN MINT—*Continued*

STATEMENT OF OPERATIONS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Revenues	316,861	310,005
Cost of goods sold	278,154	280,024
Gross profit	38,707	29,981
Other expenses		
Marketing	22,664	17,672
Administration	11,526	10,999
Depreciation	3,135	2,987
	37,325	31,658
Income (loss) from operations	1,382	(1,677)
Interest income	391	595
Interest expense	(110)	(93)
Income (loss) before income tax	1,663	(1,175)
Income tax (Note 6)	135	124
Net profit (loss)	1,528	(1,299)
Retained earnings, beginning of year	19,317	20,616
Retained earnings, end of year	20,845	19,317

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Operating activities		
Net profit (loss)	1,528	(1,299)
Item not affecting funds		
Depreciation	3,135	2,987
	4,663	1,688
Net change in non-cash working capital	8,955	(11,899)
Increase (decrease) in provision for employee termination benefits	(304)	68
	13,314	(10,143)
Investing activities		
Additions to capital assets (net)	(5,628)	(2,221)
Financing activities		
Repayment of loans from Canada	(76)	(2,674)
Other loans	(3,021)	3,021
	(3,097)	347
Increase (decrease) in cash	4,589	(12,017)
Cash and short-term investments (bank indebtedness), beginning of year	(3,386)	8,631
Cash and short-term investments (bank indebtedness), end of year	1,203	(3,386)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

1. Authority and objectives

The Mint was incorporated in 1969 by the *Royal Canadian Mint Act* and is an agent corporation of Her Majesty named in Part II of Schedule III to the *Financial Administration Act*. The objectives of the Mint are to mint coins in anticipation of profit and to carry out other related activities.

The Mint may borrow money from the Consolidated Revenue Fund or any other source, subject to the approval of the Minister of Finance with respect to the time and the terms and conditions, but the aggregate of the amounts loaned to the Mint and outstanding at any time shall not exceed $50 million.

2. Significant accounting policies

(a) Inventories

Raw materials and supplies are valued at the lower of cost and replacement cost, cost being determined by the average cost method. Work-in-process and finished goods are valued at the lower of cost and net realizable value, cost being determined by the average cost method.

(b) Capital assets

Capital assets are recorded at cost and depreciated under the straight-line method at the following annual rates:

Land improvements	2 1/2%
Buildings	2 1/2%
Equipment	10%

(c) Deferred revenues

Payments received in advance on sales are not recognized as revenue until the products are shipped.

(d) Employee termination benefits

Employees are entitled to specific termination benefits as provided under their collective agreement and terms of employment. The liability for these benefits is charged to income as benefits accrue to the employees.

(e) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The corporation's contributions to the Plan are limited to an amount equal to the employees' contributions on account of current services and are charged to operations on a current basis. The corporation is not required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

3. Inventories

	1996	1995
	(in thousands of dollars)	
Raw materials	13,310	16,472
Work in process	7,641	6,724
Finished goods	4,406	6,160
Supplies	2,618	2,953
	27,975	32,309

ROYAL CANADIAN MINT—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996—*Concluded*

In order to facilitate the production of precious metal coins, the Mint borrows the quantity of gold, platinum and silver required and pays interest based on the value of these metals established on the commodity markets. As at December 31, 1996, 91,095 ounces of gold, 756,166 ounces of silver and 2,448 ounces of platinum (1995—238,509 ounces of gold, 1,099,818 ounces of silver and 12,080 ounces of platinum) were borrowed and are not reflected in these statements.

4. Capital assets

			1996	1995
	Cost	Accumulated depreciation	Net book value	Net book value
	(in thousands of dollars)			
Land	3,226		3,226	3,226
Land improvements	914	655	259	273
Buildings	44,723	15,638	29,085	29,801
Equipment	44,533	30,618	13,915	10,692
	93,396	46,911	46,485	43,992

5. Loans

Long-term loans are from Canada and bear interest at annual rates of 8.75% and 9.50% and are repayable in annual instalments of $76,115 in 1997 and $22,265 in 1998.

6. Income tax

The corporation's 1996 income tax relates solely to the large corporations tax. The corporation's expected income tax rate is the net federal statutory rate (including surtax) of 39.12% less the manufacturing and processing deduction of 7.0%. The 1996 effective tax rate is zero, exclusive of the large corporations tax, due to the utilization by the corporation of previously unrecognized losses. The 1995 effective tax rate is zero, exclusive of the large corporations tax, due to the loss realized in that year. The corporation has income tax losses of approximately $5.5 million (1995—$5.9 million) the benefits of which have not been recognized, and which are available to reduce taxes payable for years up to 2002. In addition, the corporation has differences between the tax and accounting values of the assets, largely existing at the date it became subject to income tax, for which future deductions are available in the amount of approximately $25.6 million (1995—$26.1 million). The corporation is not subject to provincial income taxes.

7. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada owned entities. The Corporation enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. Transactions with the Department of Finance related to the production and delivery of Canadian circulation coins are generally carried out on a cost plus basis.

8. Short-term investments and other financial instruments

In accordance with the Corporation's investment policy, all short-term investments are rated R-1 low or better by the Dominion Bond Rating Service or AA or better by Moody's Investors Service. The average term to maturity of the short-term investments is less than 30 days. The Corporation uses financial instruments such as forward contracts to reduce risks on foreign exchange and metal prices. At year end, the net book value of the Corporation's foreign exchange forward contracts, all maturing in 1997, totalled $4 million Canadian ($5 million in 1995) and approximated the fair market value. Gains or losses on hedges are recognized in earnings over the period when the hedged items are recognized in earnings.

SAINT JOHN PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID ANDERSON, P.C., M.P.,
MINISTER OF TRANSPORT

We have audited the balance sheet of the Saint John Port Corporation as at December 31, 1996 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Ernst & Young
Chartered Accountants

Saint John, Canada
February 13, 1997

BALANCE SHEET AS AT DECEMBER 31, 1996
(in thousands of dollars)

ASSETS	1996	1995
Current		
Cash	122	48
Investments (Note 3)	7,922	2,846
Accounts receivable	2,608	1,123
	10,652	4,017
Long-term		
Long-term investments (Note 3)	983	980
Fixed assets (Note 4)	57,879	59,131
	58,862	60,111
Total assets	69,514	64,128

LIABILITIES AND EQUITY OF CANADA	1996	1995
Current		
Accounts payable and accrued charges	2,146	1,070
Deferred revenues	2,523	143
Grants in lieu of municipal taxes	551	591
	5,220	1,804
Long-term		
Loans from Canada (Note 5)		18,052
Financing provided by a province (Note 5)		19,696
Accrued employee benefits	367	533
	367	38,281
	5,587	40,085
EQUITY OF CANADA		
Contributed capital (Note 6)	61,659	23,910
Retained earnings	2,268	133
	63,927	24,043
Total liabilities and equity of Canada	69,514	64,128

See accompanying notes.

On behalf of the Board:

PETER S. GLENNIE, Q.C.
Chairman

ALWYN G. SOPPITT
President and Chief Executive Officer

SAINT JOHN PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Revenues from operations	13,456	12,095
Expenses		
Operating and administrative	8,945	8,086
Depreciation	1,595	1,553
Grants in lieu of municipal taxes	705	624
Gain on disposal of fixed assets	(15)	(12)
	11,230	10,251
Income from operations	2,226	1,844
Investment income	433	465
Interest expense	(524)	(2,125)
	(91)	(1,660)
Net income	2,135	184
Retained earnings (deficit), beginning of year	133	(20,603)
	2,268	(20,419)
Retained earnings adjustment (Note 7)		20,552
Retained earnings, end of year	2,268	133

See accompanying notes.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1996
(in thousands of dollars)

	1996	1995
Cash provided by (used in)		
Operations		
Net income	2,135	184
Add items not requiring a cash payment		
Depreciation	1,595	1,553
Gain on disposal of fixed assets	(15)	(12)
Other	(165)	75
	3,550	1,800
Net change in non-cash working capital balances (Note 8)	1,931	(569)
	5,481	1,231
Financing		
Forgiveness of a long-term debt	37,749	
Addition to contributed capital	(37,749)	
Investing		
Additions to fixed assets	(343)	(499)
Long-term investments	(3)	(4)
Proceeds on disposal of fixed assets	15	12
	(331)	(491)
Increase in cash	5,150	740
Cash position, beginning of year	2,894	2,154
Cash position, end of year	8,044	2,894

Cash position consists of cash and short-term investments.
See accompanying notes.

SAINT JOHN PORT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996

1. *Canada Ports Corporation Act* and incorporation

In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of Saint John was approved and the Saint John Port Corporation was incorporated under the laws of Canada effective at the closing of business on December 31, 1986 and commenced operations January 1, 1987.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred to the Saint John Port Corporation at their carrying values in the accounts of the Canada Ports Corporation—Port of Saint John.

2. Significant accounting policies

Investments

The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational using rates as follows:

Asset	Depreciation Rates %
Dredging	2.5-6.7
Berthing structures	2.5-10.0
Buildings	2.5-10.0
Utilities	3.3-10.0
Roads and surfaces	2.5-10.0
Machinery and equipment	5.0-100.0
Office furniture and equipment	20.0

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay and annual leave which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

3. Investments

Investments are direct and guaranteed securities of Canada as follows:

	1996		1995	
	Amortized cost	Face value	Amortized cost	Face value
	(in thousands of dollars)			
Canada Treasury Bills	7,922	7,969	2,846	2,899
Canada Bonds	983	1,000	980	1,000

4. Fixed assets

	1996		1995	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
	(in thousands of dollars)			
Land	31,755		31,755	
Dredging	1,739	1,594	1,739	1,590
Berthing structures	48,861	36,154	49,117	35,875
Buildings	16,163	7,242	16,035	6,873
Utilities	7,438	5,421	7,394	5,256
Roads and surfaces	7,216	5,497	7,751	5,720
Machinery and equipment	1,120	713	1,096	607
Office furniture and equipment	1,358	1,236	1,330	1,165
Work under construction	86			
	115,736	57,857	116,217	57,086
Accumulated depreciation	57,857		57,086	
Net book value	57,879		59,131	

5. Forgiveness of long-term debt

During the year, term loans in the amount of $18,052,457 from Canada, bearing interest at 11% to 12.43% maturing between December 31, 1998 and 2005, were forgiven under *The Supplementary Estimates and the Appropriation Act*.

Also, during the year, the balance of a loan in the amount of $19,696,119 provided by the Province of New Brunswick, the repayment of which had been linked to the net operating income of Rodney Terminal Complex, was forgiven by the New Brunswick Transportation Authority.

Forgiveness of the two loans has been credited to contributed capital.

SAINT JOHN PORT CORPORATION—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Concluded*

6. Adjustment to contributed capital

	1996	1995
	(in thousands of dollars)	
Contributed capital, beginning of year	23,910	44,462
Transfer to retained earnings (Note 7)		(20,552)
Forgiveness of debt from Canada (Note 5)	18,053	
Forgiveness of debt from the Province of New Brunswick (Note 5)	19,696	
Contributed capital, end of year	61,659	23,910

7. Retained earnings adjusment

In 1994, the Corporation reviewed the carrying value of all its terminal facilities. On an individual basis the carrying value of each terminal was compared to its net recoverable amount. For those terminals where the carrying value was in excess of the net recoverable amount, the carrying value was adjusted to the higher of net recoverable amount or the fair market value of the residual land. The amount of the adjustment was $20,552,000.

During 1995, permission was obtained from the Minister of Transport to transfer $20,552,000 to retained earnings from contributed capital. As a result of the transfer from contributed capital, retained earnings will reflect the cumulative results of the Corporation's regular operations.

8. Net change in non-cash working capital balances

	1996	1995
	(in thousands of dollars)	
Decrease (increase) in current assets		
Accounts receivable	(1,485)	(355)
	(1,485)	(355)
Increase (decrease) in current liabilities		
Accounts payable and accrued charges	1,076	369
Deferred revenues	2,380	(121)
Grants in lieu of municipal taxes	(40)	(462)
	3,416	(214)
	1,931	(569)

9. Related party transactions

During the year the Corporation paid $389,094 (1995—$505,116) to Canada Ports Corporation as its share of that Corporation's head office expense.

During the year the Corporation paid $690,204 (1995—$782,223) for the provision of protective services, per agreement with Canada Ports Corporation. During 1995, the responsability for payment of these services was transferred from Canada Ports Corporation to the Corporation. As a result, $663,090 was reimbursed to Canada Ports Corporation for these services in 1995. The remainder of the 1995 balance and the entire 1996 amount has been paid to various unrelated suppliers.

10. Transportation system review

The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation of a new *Canada Marine Act* superseding the *Canada Ports Corporation Act*. At this time, the impact upon the Corporation is not known.

ST. JOHN'S PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID ANDERSON, P.C., M.P.,
MINISTER OF TRANSPORT

We have audited the balance sheet of St. John's Port Corporation as at December 31, 1996 and the statements of earnings and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Doane Raymond
Chartered Accountants

St. John's, Canada
February 12, 1997

BALANCE SHEET AS AT DECEMBER 31, 1996

ASSETS	1996	1995
	$	$
Current		
Cash	40,800	158,769
Investments (Note 3)	5,202,391	4,107,873
Accounts receivable	537,485	541,934
	5,780,676	4,808,576
Fixed (Note 4)	11,779,103	11,997,317
	17,559,779	16,805,893

LIABILITIES	1996	1995
	$	$
Current		
Accounts payable and accrued liabilities	300,801	250,401
Grants in lieu of municipal taxes	167,226	118,164
Deferred revenues	157,143	140,986
	625,170	509,551
Accrued employee benefits	231,731	202,538
	856,901	712,089
EQUITY OF CANADA		
Contributed capital	10,131,636	10,131,636
Surplus	6,571,242	5,962,168
	16,702,878	16,093,804
	17,559,779	16,805,893

Contingencies (Note 6).
See accompanying notes to the financial statements.

On behalf of the Board:

MELVIN WOODWARD
Chairman

DAVID J. FOX, P. Eng.
Port Manager and Chief Executive Officer

ST. JOHN'S PORT CORPORATION—*Continued*

STATEMENT OF EARNINGS AND SURPLUS
YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Revenue from operations	3,084,430	2,934,299
Operating and administrative expenses	1,762,739	1,895,239
Depreciation	848,424	923,333
Grants in lieu of municipal taxes	129,777	31,390
	2,740,940	2,849,962
Earnings from operations	343,490	84,337
Investment income	265,584	269,236
Net earnings	609,074	353,573
Surplus, beginning of year	5,962,168	5,608,595
Net earnings	609,074	353,573
Surplus, end of year	6,571,242	5,962,168

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Cash derived from (applied to)		
Operating		
Net earnings	609,074	353,573
Depreciation	848,424	923,333
Other non-cash items	29,193	57,119
	1,486,691	1,334,025
Change in non-cash operating working capital (Note 5)	5,054	(136,898)
	1,491,745	1,197,127
Financing		
Change in construction payables	115,014	14,695
Investing		
Purchase of fixed assets	(631,210)	(187,999)
Disposal of fixed assets	1,000	208
	(630,210)	(187,791)
Net increase in cash	976,549	1,024,031
Cash and short-term investments		
Beginning of year	4,266,642	3,242,611
End of year	5,243,191	4,266,642

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1996

1. Local port corporation

In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of St. John's was approved and the St. John's Port Corporation was established effective June 1, 1985.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation—Port of St. John's to the St. John's Port Corporation.

2. Summary of significant accounting policies

Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

Fixed assets

Fixed assets are recorded at cost, except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation

Depreciation is recorded on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates as follows:

Dredging	2.5%
Berthing structures	2.5-10%
Buildings	2.5-10%
Utilities	3.3-10%
Roads and surfaces	2.5-10%
Machinery and equipment	5-100%
Office furniture and equipment	20-33.3%

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works and Government Services Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years in accordance with its policy.

ST. JOHN'S PORT CORPORATION—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1996—*Concluded*

3. Investments

	1996		1995	
	Amortized cost	Face amount	Amortized cost	Face amount
	$	$	$	$
Short-term	5,202,391	5,311,000	4,107,873	4,230,000

4. Fixed assets

			1996	1995
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Land	5,090,796		5,090,796	4,736,134
Dredging	19,500	487	19,013	
Berthing structures	11,111,492	7,643,366	3,468,126	3,718,700
Buildings	1,366,194	981,437	384,757	414,896
Utilities	3,520,901	1,824,727	1,696,174	1,848,397
Roads and surfaces	4,019,840	3,291,190	728,650	1,046,396
Machinery and equipment	357,419	214,011	143,408	162,572
Office furniture and equipment	271,300	240,363	30,937	26,542
Projects under construction	217,242		217,242	43,680
	25,974,684	14,195,581	11,779,103	11,997,317

5. Change in non-cash operating working capital

	1996	1995
	$	$
Accounts receivable	4,449	25,576
Accounts payable and accrued liabilities	(64,614)	9,015
Grants in lieu of municipal taxes	49,062	(173,562)
Deferred revenues	16,157	2,073
	5,054	(136,898)

6. Contingent liabilities

Claims aggregating approximately $364,000 arising from alleged damages suffered on the Corporation's property have been received by the Corporation. The Corporation is a third party defendant, and has denied any liability, and no material loss is anticipated.

7. Related party transactions

During the year the Corporation paid $127,240 (1995—$161,137) and $Nil (1995—$143,488) to Canada Ports Corporation as its share of that Corporation's head office expense and police services respectively.

8. Marine policy review

The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation of a new *Canada Marine Act* superseding the *Canada Ports Corporation Act*. At this time, the impact upon the Corporaiton is not known.

THE ST. LAWRENCE SEAWAY AUTHORITY

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of The St. Lawrence Seaway Authority and all information in this Annual Report are the responsibility of management.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates which are based on management's best judgements. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the consolidated financial statements.

To meet management's responsibility and to assure the integrity and reliability of financial reporting, the Authority maintains a system of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded, and that transactions and events are properly recorded.

The system of internal control is supplemented by an internal audit which conducts periodic reviews of different aspects of the Authority's operations. In addition, our external auditors have full and free access to the members of the Authority, who oversee management's responsibility for maintaining adequate control systems and the quality of financial reporting.

The Auditor General of Canada is responsible for auditing the consolidated financial statements and for issuing his report thereon.

Carol Lemelin
Comptroller and Treasurer

G.R. Stewart
President & CEO

Cornwall, Canada

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the consolidated balance sheet of The St. Lawrence Seaway Authority as at March 31, 1997 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, The *St Lawrence Seaway Authority Act* and regulations, and the by-laws of the Authority.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 9, 1997

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1997
(in thousands of dollars)

ASSETS	1997	1996
Current		
Cash and short-term investments (Note 3)	36,256	26,705
Accounts receivable (Notes 6 and 7)	4,951	5,177
Accrued interest receivable	1,043	1,953
Supplies inventory	2,673	2,747
	44,923	36,582
Long-term		
Investments (Note 3)	59,581	57,699
Mortgages receivable (Note 4)	1,055	983
Advance to a co-venturer (Note 5)	567	575
Investment in non-consolidated wholly-owned subsidiaries (Note 6)	2	2
Capital assets (Note 7)	503,721	505,835
	609,849	601,676

LIABILITIES	1997	1996
Current		
Accounts payable and accrued liabilities (Note 7)	13,627	12,688
Provision and accrued charges for abandonment of railway bridges (Note 9)	4,317	
Large corporations tax payable (Note 11)	25	155
	17,969	12,843
Long-term		
Accrued employee termination benefits	13,720	13,608
	31,689	26,451
Commitments and contingencies (Notes 12 and 13)		
EQUITY OF CANADA		
Contributed capital (Note 8)	624,950	624,950
Deficit	(46,790)	(49,725)
	578,160	575,225
	609,849	601,676

See accompanying notes to the consolidated financial statements.

Approved:

G.R. STEWART
President & CEO

C. LEMELIN
Comptroller and Treasurer

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997				1996
	Seaway	Seaway International Bridge	Thousand Islands Bridge	Total	Total
Revenues					
Tolls	75,318	1,361		76,679	72,723
Leases and licences	6,364	56	1,141	7,561	6,125
Investment income	5,462	15	628	6,105	6,459
Others	1,478	26	1,533	3,037	2,943
	88,622	1,458	3,302	93,382	88,250
Expenses					
Operations, maintenance and engineering	53,650	882	158	54,690	54,830
Administration	13,655	225	119	13,999	14,150
Amortization	12,774	148	275	13,197	13,349
	80,079	1,255	552	81,886	82,329
Income from operations	8,543	203	2,750	11,496	5,921
Abandonment of railway bridges (Note 9)	(6,719)			(6,719)	
Commercialization costs (Note 10)	(533)			(533)	
Income before large corporations tax	1,291	203	2,750	4,244	5,921
Large corporations tax (Note 11)	1,256		53	1,309	1,304
Net income for the year	35	203	2,697	2,935	4,617

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997				1996
	Seaway	Seaway International Bridge	Thousand Islands Bridge	Total	Total
Retained earnings (deficit), beginning of year	(71,172)		21,447	(49,725)	(54,342)
Net income for the year	35	203	2,697	2,935	4,617
Distribution of Joint Venture net income	203	(203)			
Retained earnings (deficit), end of the year	(70,934)		24,144	(46,790)	(49,725)

See accompanying notes to the consolidated financial statements.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands of dollars)

	1997				1996
	Seaway	Seaway International Bridge	Thousand Islands Bridge	Total	Total
Operating activities					
Cash provided from operations					
Net income for the year	35	203	2,697	2,935	4,617
Items not requiring cash					
Amortization	12,774	148	275	13,197	13,349
Abandonment of railway bridges	255			255	
Employee termination benefits	977	15		992	1,557
Gain on disposal of capital assets	(253)			(253)	(403)
Operating cash flow	13,788	366	2,972	17,126	19,120
Net change in working capital components other than cash and short-term investments	6,668	(432)	100	6,336	2,168
Payments of employee termination benefits	(866)	(14)		(880)	(914)
Cash provided by (used in) operating activities	19,590	(80)	3,072	22,582	20,374
Internal transfers	2,658		(2,658)		
	22,248	(80)	414	22,582	20,374
Investing activities					
(Increase) in investments	(1,882)			(1,882)	(8,399)
Decrease (increase) in mortgage receivables	(72)			(72)	155
Decrease in advance to a co-venturer	8			8	190
Acquisitions of capital assets	(11,016)	(19)	(414)	(11,449)	(8,279)
Proceeds from disposal of capital assets	364			364	1,014
Cash used in investing activities	(12,598)	(19)	(414)	(13,031)	(15,319)
Increase (decrease) in cash	9,650	(99)		9,551	5,055
Cash and short-term investments at beginning of year	26,480	225		26,705	21,650
Cash and short-term investments at end of year	36,130	126		36,256	26,705
Working capital position at end of year					
Current assets	44,698	225		44,923	36,582
Current liabilities	17,819	150		17,969	12,843
	26,879	75		26,954	23,739

See accompanying notes to the consolidated financial statements.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1997

1. The Authority

(a) Authority and objectives

The St. Lawrence Seaway Authority was established in 1954 under The *St. Lawrence Seaway Authority Act* and is classified as a parent Crown corporation under Schedule III Part I of The *Financial Administration Act*.

The Authority was established to construct and operate a deep waterway between the Port of Montreal and Lake Erie together with such works and other property, including bridges incidental to the deep waterway, as deemed necessary by the Governor in Council.

The *St. Lawrence Seaway Authority Act* confers upon the Authority the powers to borrow money and to produce revenue by levying tolls for the use of the deep waterway. The tolls that may be charged shall be fair and reasonable and designed to provide a revenue sufficient to defray the cost to the Authority of its operations in carrying out the purposes for which it is incorporated, which costs shall include:

(i) payments in respect to the interest on amounts borrowed by the Authority to carry out those purposes;

(ii) amounts sufficient to amortize the principal of those amounts over a period not exceeding fifty years; and

(iii) the cost of operating and maintaining the canals and works under the administration of the Authority, including all operating costs of the Authority and such reserves as may be approved by the Minister.

Under The *St. Lawrence Seaway Authority Act*, tolls may be established by filing with the Canadian Transportation Agency or by agreement between Canada and the United States. This agreement between the two countries is in the form of an exchange of notes in accordance with directions given by the Governor in Council.

(b) Commercialization of the St. Lawrence Seaway System

As part of its strategy to strengthen Canada's transportation system, on December 14, 1995, the government issued its new National Marine Policy, which confirms that the Great Lakes/St. Lawrence Seaway System is a crucial waterway and a business. This policy will likely impact significantly on the Authority's operations and structure.

Among other elements, the policy announces that the Government of Canada will pursue the commercialization of the operations of the Great Lakes/St. Lawrence Seaway System. To this end, this policy mentions two alternatives. First, negotiations are currently under way with a group representing Seaway users and consideration is being given to establishing a not-for-profit public private partnership that would operate the Seaway under a long-term agreement. According to this policy, the government would retain title to all current Seaway lands and structures regardless of how the commercialization of the operations of the Great Lakes/St. Lawrence Seaway System is carried out. Second, should negotiations be unsuccessful, the Government of Canada would pursue the required changes through other options, such as increased commercialization of the current management of the Seaway.

The Authority's future is heavily dependent on the outcome of future-related Government's decisions. At this time, it is not possible to evaluate the possible impacts on the financial statements.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. A summary of significant accounting policies follows:

(a) Basis of consolidation

The consolidated financial statements include the accounts of The St. Lawrence Seaway Authority and the Authority's proportionate share of its interest in the accounts of its joint venture, The Seaway International Bridge Corporation, Ltd. The Authority holds a 50% interest in The Seaway International Bridge Corporation, Ltd., and as a result is entitled to 50% of the assets of the joint venture, its liabilities and its net income.

The Authority's investments in two other wholly-owned subsidiaries for purposes of the *Financial Administration Act*, The Jacques Cartier and Champlain Bridges Incorporated and Great Lakes Pilotage Authority, Ltd., are recorded at cost because the Authority does not have the right and ability to obtain benefits from their resources and the Authority is not exposed to their related risks.

Thousand Islands Bridge

In September 1976, the Minister of Transport entrusted the Authority with the management and operation of the Thousand Islands Bridge, while the real property was vested in the name of Her Majesty in Right of Canada. Subsequent capital expenditures made by the Authority to improve the Bridge have been recorded as capital assets. The retained earnings of the Bridge represent its cumulative earnings since September 1976.

These consolidated financial statements have segregated the operations of the Thousand Islands Bridge on the premise that its management and operation by the Authority is independent of Seaway operations.

(b) Supplies inventory

Supplies inventory comprises equipment and supplies used in the operation and maintenance of the Seaway and is recorded at the average cost.

(c) Capital assets

Capital assets are recorded at cost. Replacements and major improvements which increase the capacity of the deep waterway system or extend the estimated useful service lives of existing assets are capitalized. Repairs and maintenance are charged to operations as incurred. The cost of assets sold, retired, or abandoned, and the related accumulated amortization are removed from the accounts on disposal. Gains or losses on disposals are credited or charged to operations.

Amortization is recorded using the straight-line method based on the estimated useful service lives of the assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

(d) Welland Canal and Valleyfield Bridge rehabilitation programs

Funding received from the Government of Canada for these programs was accounted for by crediting the amount against the costs of related capital projects undertaken during the year. The non-funded remaining cost, which is to be recovered from the users, is capitalized and amortized.

(e) Employee termination benefits

Employees of the Authority are entitled to specified benefits as provided for under labour contracts and conditions of employment. These benefits include accumulated sick leave and furlough leave which are payable upon termination. Usually, the termination benefits correspond to the higher of a week's salary (two weeks for the first year of service) for each year of service up to a maximum of 28 weeks or 75% of the balance of the employee's accumulated sick leave days. Employees are allowed 15 days of sick leave per year. The liability at year-end for these benefits is recorded in the accounts as the benefits accrue to employees.

(f) Pension plan

All employees of the Authority are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. These contributions represent the total liability of the Authority and are recognized in the accounts on a current basis.

The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(g) Employee life insurance plan

The Authority provides a life insurance plan for its employees. Surpluses and deficits from the plan are included in revenues or expenses in the year in which they are incurred.

(h) Retired employee benefits

The Authority provides a life and major medical insurance plan for its retired employees. Contributions to the plan are required from participant retired employees and the Authority. Surpluses or deficits from the plan are recognized in the accounts in the year in which they are received or paid.

(i) Insurance

The Authority assumes substantially all risks in relation to compensation and damages to its locks. For all other assets the Authority carries conventional insurance.

3. Investments

The Authority invests in short term deposits, Government of Canada Treasury Bills, Canadian Chartered Banks Investment Certificates and has two deposits with the Consolidated Revenue Fund of the Government of Canada. The Authority has set aside certain of these investments in order to provide for future operating requirements, including emergencies and cash deficits, and for the funding of future employee termination benefits. The market value of these investments approximates both their net book value and fair value.

	1997	1996
	(in thousands of dollars)	
Operating requirements		
Government of Canada Treasury Bills maturing within one year with various interest rates between 2.9% and 3.9%	16,581	7,899
Investment Certificates with various maturity dates between 1 and 3 years and with interest rates varying between 4.7% and 9.7%	30,000	36,800
	46,581	44,699
Employee termination benefits		
Deposits with Consolidated Revenue Fund with interest rates of 8.12% and 8.34% and maturing in 1998 and 2000	13,000	13,000
	59,581	57,699

4. Mortgages receivable

The Authority has entered into long-term mortgages for the sale of parcels of land. The mortgages are at various interest rates varying from 8% to 9.5%, are recoverable in monthly instalments and are amortized over a maximum period of 22 years. Their carrying value approximates fair value. The current receivable portion of mortgages aggregating $21,287 is included in the accounts receivable.

5. Advance to a co-venturer

This account represents the excess of the Authority's investment in its joint venture, The Seaway International Bridge Corporation, Ltd., over its required contribution as per the contractual agreement. The advance carries interest at the average one-year Treasury Bill and has no repayment terms. Its carrying value approximates fair value.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1997—*Continued*

6. Investments in non-consolidated wholly-owned subsidiaries and related party transactions

Investments consist of the following:

	Number of shares	Cost
		$
Great Lakes Pilotage Authority, Ltd. (GLPA)	15	1,500
The Jacques Cartier and Champlain Bridges Incorporated (JCCBI)	1	100
		1,600

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.

During the year ended March 31, 1997, the Authority provided certain engineering and administrative services to JCCBI for which it charged $653,201 (1996—$764,828). Charges are made on full cost recovery basis. At March 31, 1997, the amount receivable from JCCBI totalled $116,041 (1996—$40,782) and is included in the accounts receivable.

The Canadian Coast Guard introduced new navigational services fees based on the Authority's vessel fleet. The fees paid for this service during the year amounted to $69,981. In fiscal year 1995/96, the Authority paid $600,000 to the Canadian Coast Guard for navigational aids.

7. Capital assets

	1997				1996			
	Amortization rate	Cost	Accumulated amortization	Net	Amortization rate	Cost	Accumulated amortization	Net
		(in thousands of dollars)				(in thousands of dollars)		
Seaway								
Land		28,199		28,199		28,296		28,296
Channels and canals	1%	280,033	109,379	170,654	1%	279,613	102,292	177,321
Locks	1%	230,736	93,976	136,760	1%	224,893	91,065	133,828
Bridges and tunnels	2-4%	125,142	64,327	60,815	2-4%	124,131	62,320	61,811
Buildings	2%	15,254	8,969	6,285	2%	13,819	8,583	5,236
Equipment	2-20%	30,813	23,759	7,054	2-20%	29,473	26,153	3,320
Remedial works	1%	121,019	33,796	87,223	1%	121,019	32,560	88,459
Work under construction		262		262		1,107		1,107
		831,458	334,206	497,252		822,351	322,973	499,378
Seaway International Bridge								
Equipment	5-20%	523	384	139	5-20%	503	335	168
Building	5-10%	34	10	24	5-10%	34	8	26
Remedial works/Deferred major repairs	4.8-10%	992	294	698	4.8-10%	992	198	794
		1,549	688	861		1,529	541	988
Thousand Islands Bridge								
Improvements	2-10%	7,225	1,617	5,608	2-10%	6,811	1,342	5,469
Total		840,232	336,511	503,721		830,691	324,856	505,835

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

Subsequent additions to assets are amortized over the remaining estimated useful service life of the initial group of assets to which the addition is related. The estimated useful life of these assets is for periods up to 2073.

The Authority is continuing its review of the estimated useful service life of all its major physical assets and of its amortization policy. This review may lead to a decrease in the estimated useful life of the assets.

Welland Canal rehabilitation program

In 1985, the Authority engaged consultants to examine in detail, and report on, the structural condition of the Welland Canal system. The report was submitted during 1986 and, as a result, a seven-year $175 million rehabilitation program was established to refit the Welland Canal and ensure a continued safe and reliable waterway into the 21st century. The program consisted of refurbishing the lock walls, stabilizing the canal banks and approach walls, and rehabilitating ancillary structures.

During 1986, the Government of Canada approved funding for the financing of the Welland Canal Rehabilitation Program. The funding of $175 million, which terminated in 1993, has been deducted from related works under construction.

Valleyfield Bridge rehabilitation program

In 1987, Hydro-Quebec undertook an in-depth inspection of the bridge which led to the Rehabilitation Program for the Valleyfield Bridge. The Authority's share of the Rehabilitation represents 25% of the total cost.

A Treasury Board decision, rendered in 1992, made the Authority responsible for $17.8 million of the cost of work completed at March 31, 1992. All work was completed at March 31, 1993 and the costs to be funded by the Government of Canada amounted to $8.4 million, $1.0 million of which is included in accounts receivable; a similar amount is included in accounts payable.

8. Contributed capital

As of April 1, 1977, loans from Canada of $624.95 million were converted to equity by parliamentary appropriation. This amount was recorded as contributed capital. The parliamentary appropriation authorizing the 1977 conversion of loans from Canada to equity also authorized the Minister to fix, from time to time, the amount that shall be paid by the Authority annually out of its toll revenue as a return on capital. No return on capital has ever been required to be paid since then.

9. Abandonment of railway bridges

The Authority has decided to close two of its bridges located in the Welland Canal area, given their operating costs and the large capital expenditures that would have been incurred in the near future to rehabilitate them. The Authority has estimated the total abandonment cost at about $6,7 million and it has recorded its costs in the current year.

The bridges were used in the railway service of a railway company by virtue of agreements signed more than 50 years ago. In order to carry out its plan to close those two bridges, the Authority acquired in 1996 the railway company's rights and interest in the bridges that were conferred to it under the prior agreements. The acquisition cost of those rights and interest together with the estimated cost for the demolition of the bridges, represent the major cost component of this project. The Authority plans to complete the demolition of the two bridges in 1997/98.

10. Commercialization costs

The Authority is participating in activities relating to the commercialization of the St. Lawrence Seaway System. The cost of those activities includes studies for the setting up of a new not-for-profit public/private partnership and for the potential revision of the employees' pension plan.

11. Income taxes—Large corporations tax

The Authority, as a prescribed Federal Crown corporation, is subject to the provisions of the *Income Tax Act*. The Authority is not subject to any provincial income taxes.

Currently, unamortized capital cost for tax purposes is in excess of the net book value of capital assets by approximately $192 million. The tax effect of this excess has not been recorded in the accounts of the Authority. The Authority also has a deductible loss of $5.9 million expiring in 2002 which is available to reduce the taxable income of future years.

12. Commitments

At March 31, 1997, contractual obligations for capital and other expenditures amounted to $15.8 million (1996—$1.7 million).

13. Contingencies

There is a total of $86 million in claims instituted against the Authority. The claims arise from the breakdown of the Valleyfield Bridge in November 1984, the October 1985 Lock 7 wall blow-out, compensation and damages in connection with the expropriation of lands and various other claims. The Authority is contesting all these claims and their outcome cannot be determined at this time although management is of the opinion that these actions will not result in any material losses to the Authority. The Authority is also the claimant in certain other pending or threatened claims and lawsuits.

Decontamination could be needed for some of the Authority's properties. To date, the Authority has not been in a position to determine the related costs, not having assessed its properties' contamination status. The Authority is currently in the process of finalizing its environmental policy.

14. Required future funding for major restoration of the infrastructure

The anticipated amount of funds that should be provided by operating activities over the next five years will most likely not be sufficient to finance the anticipated major restoration projects of the Authority's infrastructure over that period. The Authority will need to use a significant portion of its investments to cover the excess costs of these projects over the funds generated by its operating activities. Beyond that period, and in the event of the continuance of that trend, the Authority may require outside financing of these projects.

15. Comparative figures

Some of the 1996 comparative figures were reclassified to conform to the presentation adopted in 1997.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED

MANAGEMENT'S REPORT

The accompanying financial statements of The Jacques Cartier and Champlain Bridges Incorporated and all information in this annual report are the responsibility of management.

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates which are based on management's best judgement. Information contained elsewhere in the annual report is consistent, where applicable, with that contained in the financial statements.

To meet management's responsibility and to assure the integrity and reliability of financial reporting, the corporation maintains a system of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded, and that transactions and events are properly recorded.

The system of controls is supplemented by an audit which consists of periodic reviews of different aspects of the corporation's operations. External auditors have full and free access to the directors, who oversee management's responsibility for maintaining adequate control systems and the quality of financial reporting.

The Auditor General of Canada is responsible for auditing the financial statements and for issuing his report thereon.

Glen P. Carlin
General Manager

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of The Jacques Cartier and Champlain Bridges Incorporated as at March 31, 1997 and the statements of operations, deficit, contributed capital and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
April 25, 1997

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1—*Continued*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997

ASSETS	1997	1996
	$	$
Current		
Cash and term deposits	2,880,516	3,745,543
Accounts receivable	269,622	124,017
Due from Canada	3,380,335	2,115,268
	6,530,473	5,984,828
Capital assets		
Land	3,678,846	3,678,846
Bridges	73,321,602	73,321,602
Vehicles and equipment	1,305,513	1,126,385
	78,305,961	78,126,833
Less: accumulated amortization	68,582,777	67,437,458
	9,723,184	10,689,375
	16,253,657	16,674,203

LIABILITIES	1997	1996
	$	$
Current		
Accounts payable	2,955,061	2,476,229
Due to parent company	116,041	38,674
Deferred revenues	267,855	278,409
	3,338,957	2,793,312
Long-term		
Provision for employee termination benefits	347,695	356,904
	3,686,652	3,150,216
Commitments and contingencies (Notes 5 and 6)		
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—50 shares without par value		
Issued and fully paid—1 share	100	100
Contributed capital	33,605,777	33,383,335
Deficit	(21,038,872)	(19,859,448)
	12,567,005	13,523,987
	16,253,657	16,674,203

See accompanying notes to the financial statements.

Approved by the Board:

G.R. STEWART
Director

C. CÔTÉ
Director

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1—*Continued*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997

	Jacques Cartier Bridge	Champlain Bridge	Total 1997	Total 1996
	$	$	$	$
Revenues				
Leases and licences	271,615	206,723	478,338	472,073
Interest	62,320	62,320	124,640	201,206
Other	81,491	125,578	207,069	176,032
	415,426	394,621	810,047	849,311
Expenses				
Maintenance (Note 3)	7,096,392	15,804,760	22,901,152	24,126,473
Operation	1,165,672	2,304,394	3,470,066	3,402,522
Administration	731,298	1,251,186	1,982,484	1,758,740
Amortization	106,834	1,081,799	1,188,633	1,167,441
	9,100,196	20,442,139	29,542,335	30,455,176
Loss before Large Corporations Tax	8,684,770	20,047,518	28,732,288	29,605,865
Large Corporations Tax	4,989	4,989	9,978	12,312
Net loss for the year	8,689,759	20,052,507	28,742,266	29,618,177

STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Balance at beginning of the year	19,859,448	18,686,475
Net loss for the year	28,742,266	29,618,177
	48,601,714	48,304,652
Excess of the expenditures over the revenues in the operations financed by parliamentary appropriations	27,562,842	28,445,204
Balance at end of the year	21,038,872	19,859,448

STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Balance at beginning of the year	33,383,335	33,324,159
Net acquisition of capital asset financed by parliamentary appropriations	222,442	59,176
Balance at end of the year	33,605,777	33,383,335

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Operating activities		
Net loss for the year	(28,742,266)	(29,618,177)
Non-cash items		
Amortization	1,188,633	1,167,441
Increase (decrease) in the provision for employee termination benefits	(9,209)	5,532
	(27,562,842)	(28,445,204)
Changes in non-cash items of working capital	400,040	(1,647,602)
	(27,162,802)	(30,092,806)
Investing activities		
Addition of capital assets	(226,772)	(59,176)
Proceeds from the disposal of capital assets	4,330	
	(222,442)	(59,176)
Financing activities		
Parliamentary appropriation	27,785,284	28,504,380
Cash and cash equivalents		
Increase (decrease) for the year	400,040	(1,647,602)
Balance at beginning of the year	5,860,811	7,508,413
Balance at end of the year (*)	6,260,851	5,860,811
(*) Cash and term deposits	2,880,516	3,745,543
Due from Canada	3,380,335	2,115,268
	6,260,851	5,860,811
Working capital position at year-end		
Current assets	6,530,473	5,984,828
Current liabilities	3,338,957	2,793,312
	3,191,516	3,191,516

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1—*Continued*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997

1. Authority and activities

The Jacques Cartier and Champlain Bridges Incorporated was established under the *Canada Business Corporations Act* on November 3, 1978 and is a wholly-owned subsidiary of The St. Lawrence Seaway Authority, which is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

The corporation is dependent on the Government of Canada for its financing.

Effective December 1, 1978, the corporation assumed the responsibility for the operation, maintenance and control of the Jacques Cartier and Champlain bridges and of a portion of the Bonaventure Autoroute, situated in the Montreal area.

2. Significant accounting policies

(a) Capital assets

Capital assets acquired from the National Harbours Board (now Canada Ports Corporation) on December 1, 1978 were recorded at their then book values with an offset to contributed capital. Subsequent additions are recorded at cost.

Capital assets are amortized over their estimated economic lives using the straight-line method, at the following rates:

Jacques Cartier Bridge	4.8%
Champlain Bridge	2.5%
Vehicles and equipment	10% and 20%
Software	100%

The cost of the portion of the Bonaventure Autoroute for which the corporation is responsible and the initial cost of the Jacques Cartier Bridge are fully amortized.

The cost of major maintenance is charged to operations in the year in which the work is performed.

(b) Parliamentary appropriation

The amount of the parliamentary appropriation used to cover the excess of expenditures over the revenues in the operation of the Jacques-Cartier and Champlain Bridges is reflected in the statement of deficit. In this regard, operating expenses do not include amortization, any change in the provision for employee termination benefits and any gain or loss on disposal of capital assets.

The portion of the parliamentary appropriation used to finance the acquisition of capital assets, net of proceeds from disposal, is recorded as contributed capital.

Any balance of the parliamentary appropriation required to finance the loss for the year and not received at the year-end is shown as an amount due from Canada. Any parliamentary appropriation received in excess of requirements is recorded as due to Canada. It is the corporation's policy to reimburse this amount in the following fiscal year.

(c) Prepaid revenues

Leases and licenses revenues collected in advance are recorded as prepaid revenues.

(d) Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided under their collective agreement and their conditions of employment. The cost of these benefits is expended in the year in which they are earned.

(e) Pension plan

Employees participate in the Superannuation Plan administered by the Government of Canada. The employees and the corporation contribute equally to the cost of the Plan. This contribution represents the total liability of the corporation. Contributions in respect of current services and of admissible past services are expended when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

(f) Expenses

Expenses incurred with respect to the portion of the Bonaventure Autoroute for which the corporation is responsible are included with those of the Champlain Bridge.

(g) Income taxes

The corporation, as a federal Crown corporation, is not subject to any provincial income taxes. The corporation is, however, subject to the provisions of the *Federal Income Tax Act* due to the fact that its parent corporation is subject to these provisions in accordance with a regulation regarding this Act. Therefore the corporation is subject to the Large Corporations Tax.

3. Major rehabilitation works

In its endeavour to keep the bridges and the autoroute in a good state of repair, to protect the public and serve traffic needs throughout the useful life of these installations, the corporation must undertake major rehabilitation works on the deck of the Jacques Cartier Bridge. The nature of the work to be undertaken is sufficiently known; it remains difficult presently to estimate precisely the eventual cost of the major repairs which will have to be carried out over a number of years. It is expected that the cost of this program will be funded by parliamentary appropriations. The corporation expects that the repairs to the Jacques Cartier Bridge will begin in 1997-98 with a pilot project. The corporation is studying other options which could reduce costs and the duration of the work while decreasing the impact on traffic.

4. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The corporation enters into transactions with these entities in the normal course of business. The main related party transactions entered into by the corporation are administrative and engineering services received from its parent corporation for an amount of $496,595 ($642,856 in 1996).

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1—*Concluded*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

5. Commitments

(a) Leases

The aggregate minimum rental payments under long-term leases for premises and equipment through to April 30, 1997 are approximately $18,000.

(b) Operation services

The minimum amount which will be paid in future years under an agreement for police services ending on June 30, 1999 is $3.3 million on an annual basis.

(c) Suppliers

At March 31, 1997, contractual obligations to suppliers amounted to approximately $6.4 million.

6. Contingencies

(a) The corporation has benefited from reimbursements equivalent to 57% of the goods and services tax and 40% of the Quebec provincial sales tax since their respective implementation. These reimbursements, totalling $3.5 million, were claimed based on information obtained when these taxes were implemented and led the corporation to believe that it could benefit from these reimbursements according to the *Act*.

The status of the corporation is under revision at Revenue Quebec.

It is presently impossible to evaluate whether the corporation will have to return the amounts received as a reimbursement of these taxes or whether it will be exempt.

(b) In the normal course of its activities, the corporation is the claimant or defendant in certain pending claims or lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the corporation.

(c) Decontamination could be needed for some of the corporation's properties. To date, the corporation has not been in a position to determine the related costs, not having assessed its properties' contamination status. The costs related to the environmental evaluations and to the decontamination will be accounted for in the financial period during which they will be incurred by the corporation.

7. Fair value of financial instruments

The transactions related to cash and term deposits, accounts receivable, due from Canada, accounts payable and the amount due to parent company are incurred in the normal course of business. The carrying amounts of each of these accounts approximate their fair values because of their short-term maturity. There is no concentration of accounts receivable with any customer and, consequently, the credit risk is low.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 2

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD. (a joint venture)

MANAGEMENT REPORT

The accompanying financial statements of The Seaway International Bridge Corporation, Ltd. and all information in this annual report are the responsibility of management.

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates which are based on management's best judgements. Information contained elsewhere in the annual report is consistent, where applicable, with that contained in the financial statements.

To meet management's responsibility and to assure the integrity and reliability of financial reporting, the Corporation maintains a system of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded, and that transactions and events are properly recorded. The system of internal control is supplemented by an internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities with the assistance of the Audit Committee of the Board, which is composed of three directors who are not employees of the Corporation.

The Audit Committee meets with management, the internal auditor and the Auditor General of Canada, the external auditor, and also reviews and recommends to the Board the approval of the Corporation's annual financial statements. In addition, the external auditor has full and free access to the directors of the Corporation.

The Auditor General of Canada is responsible for auditing the financial statements and for issuing his report thereon.

Glendon R. Stewart
President

Carol Lemelin
Treasurer

Cornwall, Canada

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have audited the balance sheet of The Seaway International Bridge Corporation, Ltd. as at December 31, 1996 and the statements of revenues and expenses and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *St. Lawrence Seaway Authority Act*, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 21, 1997

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 2—*Continued*

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD. (a joint venture)—*Continued*

BALANCE SHEET AS AT DECEMBER 31, 1996

ASSETS	1996	1995
	$	$
Current assets		
Cash and short-term deposits (Note 3)	251,551	449,662
Accounts receivable	62,364	29,424
Goods and Services Tax refundable	136,580	104,256
	450,495	583,342
Capital assets (Note 4)	394,352	461,861
Deferred major repairs (Note 5)	1,326,941	1,515,582
	2,171,788	2,560,785

LIABILITIES	1996	1995
	$	$
Current liabilities		
Accounts payable and accrued liabilities	99,744	118,522
Ontario sales tax payable	38,538	
Deferred revenue	105,884	103,557
Clients' deposits	55,413	38,825
	299,579	260,904
Due to venturers (Note 6)	204,950	444,990
	504,529	705,894
Long-term liabilities		
Due to venturers (Note 6)	1,395,065	1,588,658
Debentures payable (Note 7)	8,000	8,000
Accrued employee termination benefits	256,194	250,233
	1,659,259	1,846,891
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—an unlimited number of common shares		
Issued and fully paid—8 shares	8,000	8,000
	2,171,788	2,560,785

Approved by the Board:

GLENDON R. STEWART
President and Director

ERMAN J. COCCI
Director

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 2—*Continued*

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD. (a joint venture)—*Continued*

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Revenues		
Tolls	2,721,789	2,730,310
Rentals	111,651	107,302
Interest	29,951	58,134
Other	51,844	55,043
	2,915,235	2,950,789
Expenses		
Maintenance	1,172,168	1,010,933
Toll collection	591,034	604,702
Administration	449,806	441,400
Amortization of capital assets and deferred major repairs	295,069	296,918
Interest due to the venturers (Note 6)	96,592	138,364
	2,604,669	2,492,317
Excess of revenues over expenses	310,566	458,472
Allocation of excess of revenues over expenses for the year as per the joint venture agreement (Note 6)		
Saint Lawrence Seaway Development Corporation	155,283	229,236
The St. Lawrence Seaway Authority	155,283	229,236
Total allocation	310,566	458,472

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	$	$
Operating activities		
Cash provided from operations		
Excess of revenues over expenses, before allocation to venturers	310,566	458,472
Items not requiring cash		
Provision for employee termination benefits	30,883	24,897
Amortization of capital assets and deferred major repairs	295,069	296,918
	636,518	780,287
Change in working capital items other than cash and short-term deposits and due to venturers	(23,645)	63,594
Payments of employee termination benefits	(27,866)	(19,398)
Cash provided by operating activities	585,007	824,483
Financing activities		
Payments to venturers, net of interest charged	(744,199)	(490,266)
Investing activities		
Additions to deferred major repairs		(28,376)
Additions to capital assets	(38,919)	(118,893)
Increase in Goods and Services Tax refundable		(17,881)
Decrease in accounts payable related to deferred major repairs		(374,495)
	(38,919)	(539,645)
Decrease in cash	(198,111)	(205,428)
Cash and short-term deposits, beginning of the year	449,662	655,090
Cash and short-term deposits, end of the year	251,551	449,662

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 2—*Continued*

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD. (a joint venture)—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

1. Authority and activities

The Seaway International Bridge Corporation, Ltd. (SIBC; the Joint Venture) is an agent of The St. Lawrence Seaway Authority (SLSA) and its US counterpart, the Saint Lawrence Seaway Development Corporation (SLSDC).

SIBC was incorporated under the *Canada Corporations Act* in 1962, continued under the *Canada Business Corporations Act*, and is subject to *The St. Lawrence Seaway Authority Act*. SLSA owns all the issued shares which makes SIBC a subsidiary of SLSA for the purposes of the *Financial Administration Act*.

The SLSA's share ownership in SIBC accounts for its 50% investment in the Joint Venture. The SLSDC's 50% investment in the Joint Venture is represented by the debentures payable. Strategic operating, investing and financing decisions need approval by the Board of Directors which is made up of an equal number of representatives from each of the two venturers.

The purpose of the Joint Venture is to operate and manage the international crossing between Corwall, Ontario, and Rooseveltown, New York based on a September 1957 joint venture agreement. The crossing comprises two high level bridges, the North Channel Bridge and the South Channel Bridge. The operations include the collection of tolls.

2. Accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles used in Canada. A summary of significant accounting policies follows:

Excess of revenues over expenses

Excess of revenues over expenses is distributed based on a formula specified in the joint venture agreement as described in Note 6 to the financial statements. The excess of revenues over expenses represents amounts collected on behalf of The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation, and does not constitute a profit for the Joint Venture.

Foreign currency translation

Transactions in foreign currency, essentially tolls collected in US dollars, are translated into Canadian dollars at the exchange rate in effect on the transaction date.

Capital assets and amortization

Capital assets are recorded at cost. These costs include moveable and removable assets acquired to operate the bridge. The cost of the North Channel Bridge is recorded in the books of The St. Lawrence Seaway Authority. The cost of the South Channel Bridge is recorded in the books of The St. Lawrence Seaway Authority (32%) and the Saint Lawrence Seaway Development Corporation (68%).

Costs, borne by the Joint Venture, that are improvements to the North Channel Bridge which are required for operational efficiency and to ensure its reliability are capitalized if they enhance the service potential of the capital asset. Costs of major repairs and betterments to the South Channel Bridge are the direct financial responsibility of the two venturers and, as a result, are not recorded as capital assets or expenses in the financial statements.

Amortization of capital assets is based on their estimated useful life and is calculated on the straight-line method at the following annual rates:

Automotive	10% and 20%
Maintenance equipment	10% to 20%
Office and toll equipment	10% to 20%
Buildings	5% to 10%
Bridge equipment	5%
Remedial works	4.8% to 10%

Deferred major repairs

Deferred major repairs are recorded at cost and are amortized using the straight-line method over the estimated 10-year useful life.

Employee termination benefits

Most of the employees are entitled to specified benefits on termination as provided for under the conditions of employment. The liability for these benefits is recorded in the accounts as the employees become entitled to the benefits. The termination benefits correspond to the higher of a week's salary for each year of service up to a maximum of 28 weeks or 75% of the employee's accumulated sick leave days.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Joint Venture. These contributions represent the total pension liability of the Joint Venture and are recognized in the accounts on a current basis. The Joint Venture is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Deferred revenue

Revenue from unredeemed toll tickets is deferred.

Employee life insurance plan

The Joint Venture provides a life insurance plan for its employees. Surpluses and deficits from the plan are recorded in employee benefits in the year in which they are determined.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996—*Continued*

3. Cash and short-term deposits

In the course of its normal activities, the Joint Venture invests its temporary excess funds in short-term deposits in Canadian financial institutions. However, as at December 31, 1996, there were no outstanding short-term deposits (1995—$291,309). The rate of return on short-term deposits varied between 3.3% and 7.0% during the year (5.8% and 8.2% in 1995). The Joint Venture also earns interest at prime less 2.5% on its cash in the bank when the monthly balance exceeds $100,000.

4. Capital assets

	1996			1995		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	$	$	$	$	$	$
Automotive	193,631	173,757	19,874	193,631	165,512	28,119
Maintenance equipment	299,798	173,750	126,048	283,343	142,505	140,838
Office and toll equipment	512,071	400,864	111,207	489,607	344,952	144,655
Buildings	68,815	19,719	49,096	68,815	15,646	53,169
Bridge equipment	40,007	20,004	20,003	40,007	18,003	22,004
Remedial works	97,834	29,710	68,124	97,834	24,758	73,076
	1,212,156	817,804	394,352	1,173,237	711,376	461,861

5. Deferred major repairs

Deferred major repairs represent the cost of major rehabilitation projects completed in 1995 which maintain the reliability of the North Channel Bridge over future years.

	1996	1995
	$	$
Cost	1,886,413	1,886,413
Accumulated depreciation	559,472	370,831
Net book value	1,326,941	1,515,582

6. Due to venturers

As per the joint venture agreement, the annual excess of revenues over expenses over the years was first distributed to The St. Lawrence Seaway Authority as a bridge user charge to reimburse it for the construction cost of the North Channel Bridge together with interest. At the end of 1993, the bridge user charge distributed to The St. Lawrence Seaway Authority totalled $11,109,347 representing the full reimbursement of the said construction cost and related interest. Accordingly, since then the annual excess of revenues over expenses is divided equally between The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Concluded*

APPENDIX 2—*Concluded*

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD. (a joint venture)—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996—*Concluded*

The amounts due to The St. Lawrence Seaway Authority (SLSA) and the Saint Lawrence Seaway Development Corporation (SLSDC) are calculated as follows:

	SLSA		SLSDC		Total	
	1996	1995	1996	1995	1996	1995
	$	$	$	$	$	$
Balance due at beginning of year	1,592,582	1,798,422	441,066	267,019	2,033,648	2,065,441
Interest charged	75,173	119,015	21,419	19,347	96,592	138,362
Allocation of excess of revenues over expenses	155,283	229,236	155,283	229,236	310,566	458,472
	1,823,038	2,146,673	617,768	515,602	2,440,806	2,662,275
Payments made during the year						
—Remittance of a portion of prior year's excess of revenues over expenses	200,000	400,000			200,000	400,000
—Interest	75,173	119,015			75,173	119,015
—Work done on behalf of SLSA and SLSDC to the South Channel Bridge*	180,998	35,076	384,620	74,536	565,618	109,612
	456,171	554,091	384,620	74,536	840,791	628,627
Balance due at end of year	1,366,867	1,592,582	233,148	441,066	1,600,015	2,033,648
Long-term portion	1,161,917	1,147,592	233,148	441,066	1,395,065	1,588,658
Current portion	204,950	444,990			204,950	444,990

* Major repairs and/or betterments incurred to assure the reliability of the South Channel Bridge are to be borne by SLSA and the SLSDC in the ratio of 32% and 68% respectively.

The long-term portion of the amount due to each venturer is to represent their respective share of the financing of deferred major repairs and remedial works, which total $1,395,065 at year end. The total amount due to SLSDC is currently lower than its required share and, as a result, SLSA carries the difference. The long-term portion of the amount due to SLSDC is expected to increase by its share in the excess of revenues over expenses in future years, until it matches its share of the unamortized balance of deferred major repairs.

The amounts due to The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation will be paid as funds become available. Interest is charged on the balance outstanding at the average one year Treasury Bill rate for the long-term portion and at the average three month Treasury Bill rate for the current portion.

7. Debentures payable

These debentures, due on December 31, 2012 are non-interest bearing and are payable to the Saint Lawrence Seaway Development Corporation.

8. Bridge use

With the approval of the Canadian Transportation Agency, the Joint Venture continues the practice of providing free usage of the bridge system to certain North American Indians. This represents a substantial portion of the bridge traffic.

9. Related party transactions

In addition to the transactions disclosed elsewhere in these financial statements, administrative support and certain engineering services are provided by The St. Lawrence Seaway Authority. Administrative support services amounted to $66,955 for 1996 ($62,557 for 1995). The charge for engineering services amounted to $42,812 for 1996 ($23,609 for 1995). The Joint Venture also enters into various other transactions with the Government of Canada, its agencies and other Crown corporations, in the normal course of business.

10. Comparative figures

Some of the 1995 comparative figures were reclassified to conform to the presentation adopted in 1996.

STANDARDS COUNCIL OF CANADA

REPORT OF MANAGEMENT'S RESPONSIBILITY

The accompanying financial statements and all information in the Annual Report are the responsibility of the Council and its officers. The financial statements were prepared by management in conformity with generally accepted accounting principles appropriate to Council's operations. The non-financial information provided in the Annual Report has been selected on the basis of its relevance to Council's objectives.

Council maintains a system of financial and management controls and procedures designed to provide reasonable assurance that the transactions undertaken by the Council are appropriately authorized, that assets are safeguarded and that financial records are properly maintained to provide reliable financial statements. These controls and procedures are also designed to provide reasonable assurance that transactions are in accordance with the Council's objectives and within its mandate as stated in the *Standards Council of Canada Act*.

The Auditor General annually provides an independent, objective review of the financial records to determine if the financial statements report fairly the operating results and financial position of the Council in accordance with generally accepted accounting principles.

Council, through its Audit Committee, is responsible for reviewing management's financial and reporting practices in order to satisfy itself that these responsibilities are properly discharged by management. The Audit Committee, comprised solely of Council members, meets with management and the Auditor General to review the annual financial statements and reports on them to the Council.

Richard Lafontaine
Chair

AUDITOR'S REPORT

TO THE MINISTER OF INDUSTRY

I have audited the balance sheet of Standards Council of Canada as at March 31, 1997 and the statements of operations, equity of Canada and changes in financial position for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Council that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Standards Council of Canada Act* and the by-laws of the Council.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 9, 1997

STANDARDS COUNCIL OF CANADA—*Continued*

BALANCE SHEET AS AT MARCH 31, 1997

ASSETS	1997	1996
	$	$
Current		
Cash	748,718	680,367
Accounts receivable		
Federal government departments and agencies	894,056	300,433
Other	998,455	960,464
Parliamentary appropriation receivable	322,000	523,000
Inventory of foreign standards	161,313	185,377
Prepaid expenses	347,345	367,782
	3,471,887	3,017,423
Capital assets (Note 3)	767,049	389,441
	4,238,936	3,406,864

LIABILITIES	1997	1996
	$	$
Current		
Accounts payable and accrued liabilities	1,221,639	888,426
Customer and other deposits	144,946	83,794
Deferred revenue	28,132	105,941
Deferred revenue related to capital assets (Note 4)	357,660	
	1,752,377	1,078,161
Long-term		
Accrued employee severance benefits	110,467	149,106
	1,862,844	1,227,267
EQUITY OF CANADA		
Equity of Canada	2,376,092	2,179,597
	4,238,936	3,406,864

The accompanying notes are an integral part of these financial statements.

Approved by the Council:

RICHARD LAFONTAINE
Chair

MICHAEL B. McSWEENEY
Executive Director

STANDARDS COUNCIL OF CANADA—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Revenue		
Sales of standards	2,041,068	2,881,457
Accreditation fees	1,682,728	1,357,519
Standards Initiatives Program funding	984,805	
WTO/NAFTA Enquiry Point	261,163	312,289
Other	151,648	93,320
	5,121,412	4,644,585
Expenses		
Salaries and employee benefits	3,694,307	3,293,434
Memberships in international organizations	1,209,778	1,334,202
Travel	1,071,447	912,981
Professional and special services	1,067,349	368,973
Direct cost of standards sold	926,507	1,514,608
Office accommodation	754,586	752,795
Publications and printing	432,623	528,074
Telecommunications and postage	291,431	284,114
Amortization of capital assets	179,796	156,582
Office supplies	130,809	131,006
Public relations	89,593	78,746
Rental of office equipment	69,421	74,158
Meetings	38,233	30,687
Exchange of national standards	17,864	89,348
Other	135,173	124,991
	10,108,917	9,674,699
Excess of expenses over revenue	4,987,505	5,030,114

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Operating activities		
Excess of expenses over revenue	(4,987,505)	(5,030,114)
Items not requiring an outlay of cash		
Amortization of capital assets	179,796	156,582
	(4,807,709)	(4,873,532)
Payment of accrued employee severance benefits	(38,638)	(94,197)
Changes in current liabilities and current assets other than cash	288,103	(118,119)
Cash applied to operating activities	(4,558,244)	(5,085,848)
Financing activities		
Parliamentary appropriation	5,184,000	5,264,000
Investing activities		
Additions to capital assets	(557,405)	(186,887)
Increase (decrease) in cash during the year	68,351	(8,735)
Cash at beginning of the year	680,367	689,102
Cash at end of the year	748,718	680,367

The accompanying notes are an integral part of these financial statements.

STATEMENT OF EQUITY OF CANADA
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	$	$
Balance at the beginning of the year	2,179,597	1,945,711
Parliamentary appropriation	5,184,000	5,264,000
	7,363,597	7,209,711
Excess of expenses over revenue	(4,987,505)	(5,030,114)
Balance at the end of the year	2,376,092	2,179,597

The accompanying notes are an integral part of these financial statements.

STANDARDS COUNCIL OF CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997

1. Authority, objects, and programs

The Standards Council of Canada was created by Parliament as a corporation under the *Standards Council of Canada Act* in 1970 (revised, 1996) to be the national coordinating body for voluntary standardization. The Council is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

The mandate of the Council is to promote voluntary standardization in Canada, where standardization is not expressly provided for by law, in order to advance the national economy, support sustainable development, benefit the health, safety and welfare of workers and the public, assist and protect consumers, facilitate domestic and international trade and further international cooperation in relation to standardization.

The Council's activities and programs are centred around six broad areas:

- coordinating and accrediting organizations that are engaged in standards development and conformity assessment;
- participating and representing Canada's interests internationally through membership in the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC), the Pacific Area Standards Congress (PASC), and the Pan American Standards Commission (COPANT);
- approving National Standards of Canada;
- serving as the focal point for enquiries on the subject of standardization for both domestic and international activities and standards;
- fostering and promoting the understanding, benefits, and usage of standards in all aspects of economic activity both nationally and internationally;
- serving as the repository and focal point for national and international standards for distribution to Canadian industry.

2. Significant accounting policies

(a) Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful life of the assets as follows:

Furniture	5 years
Equipment	4 years
Leasehold improvements	term of the lease

(b) Inventory

Inventory of foreign standards is valued at the lower of cost or replacement cost.

(c) Prepaid expenses

Annual membership fees paid to ISO and IEC for periods extending beyond the fiscal year are recorded as prepaid expenses.

(d) Recoverable expenses

Recoveries of expenses in respect of an agreement for the operation of the World Trade Organization/North American Free Trade Agreement (WTO/NAFTA) Enquiry Point are recognized as revenue at the time the expenses are incurred.

(e) Revenue and deferred revenue

Revenue is recorded on an accrual basis in the year in which it is earned. Amounts invoiced for accreditation services which have not been rendered are deferred and the revenue recorded as the services are provided.

(f) Parliamentary appropriation

Operating expenditures and the acquisition of capital assets are financed by a parliamentary appropriation which is credited to the equity of Canada in the year to which it applies.

(g) Employee severance benefits

Up to March 31, 1994, employees earned specified benefits payable on termination as provided for under Conditions of Employment. Benefits due to employees as of that date will be paid out over a five year period ending March 31, 1999 or upon an employee's termination if prior to March 31, 1999. The fair value of outstanding benefits approximates their carrying value.

(h) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Council's contributions to the plan are limited to matching the employee's contributions for current service. These contributions are expensed during the year in which services are rendered and represent the total pension obligations of the Council.

3. Capital assets

	1997			1996
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Furniture	265,683	237,187	28,496	41,997
Equipment	1,462,816	827,472	635,344	229,486
Leasehold improvements	157,433	54,224	103,209	117,958
	1,885,932	1,118,883	767,049	389,441

STANDARDS COUNCIL OF CANADA—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997—*Concluded*

4. Deferred revenue related to capital assets

In 1997, the Council was awarded various contracts under the Industry Canada Standards Initiatives Program. Revenue of $984,805 was recognized in 1997 for activities undertaken pursuant to these contracts. Some of the contracts required the acquisition of capital assets for the delivery of services over an estimated period of four (4) years. Amounts received pursuant to these contracts have been recorded as deferred revenue and are being amortized to income on the same basis as the related capital assets. The changes in the deferred revenue related to capital assets balance for the period are as follows:

	1997
	$
Beginning balance	
Add acquired assets	382,772
Less amounts amortized to revenue	25,112
Ending balance	357,660

5. Financial instruments

Accounts receivable and accounts payable are incurred in the normal course of business. All are due on demand and non-interest bearing. The carrying amounts of each approximate fair values because of their short maturity. There are no concentrations of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

6. Lease commitment

The Council is leasing office space for a ten-year term which expires in May 2002. The future minimum annual rental under this agreement, exclusive of operating and realty tax expense, is $410,810 for years one to five, and $416,008 for years six to ten.

7. Related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the Council is related in terms of common ownership to all Government of Canada created departments, agencies, and Crown corporations. The Council enters into transactions with these entities in the normal course of business.

8. Comparative figures

Certain of the 1996 comparative figures have been reclassified to comform to the current year's presentation.

VANCOUVER PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE DAVID ANDERSON, P.C., M.P.,
MINISTER OF TRANSPORT

We have audited the consolidated balance sheet of the Vancouver Port Corporation as at December 31, 1996 and the consolidated statements of operations and retained earnings and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during the examination of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, and the charter and by-laws of the Corporation.

KPMG
Chartered Accountants

Vancouver, Canada
February 7, 1997

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1996
(in thousands of dollars)

ASSETS	1996	1995
Current assets		
Cash	2,411	2,222
Investments (Note 2)	80,777	55,387
Accounts receivable	10,774	9,737
	93,962	67,346
Long-term receivables (Note 3)	12,050	12,495
Property and equipment (Note 4)	427,733	367,808
	533,745	447,649

LIABILITIES AND EQUITY OF CANADA	1996	1995
Current liabilities		
Accounts payable and accrued liabilities	32,062	25,901
Grants in lieu of municipal taxes	1,397	7,428
Deferred revenue	5,984	3,999
	39,443	37,328
Accrued employee benefits	1,636	1,198
Long-term loans (Note 5)	131,638	44,324
	172,717	82,850
EQUITY OF CANADA		
Contributed capital	150,259	150,259
Retained earnings	210,769	214,540
	361,028	364,799
Commitments (Note 7)		
Contingencies (Note 8)		
	533,745	447,649

See accompanying notes to consolidated financial statements.

On behalf of the Board:

J. RON LONGSTAFFE
Chairman

THOMAS G. WHITE
Director

VANCOUVER PORT CORPORATION—*Continued*

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS AS AT DECEMBER 31, 1996 (in thousands of dollars)

	1996	1995
Operating revenue	64,800	62,531
Expenses		
Operating and administrative expenses	28,384	29,658
Grants in lieu of municipal taxes	5,119	7,608
Depreciation	10,776	11,789
	44,279	49,055
Income from operations	20,521	13,476
Investment income	4,234	4,113
Interest expense	(6,617)	(2,916)
	(2,383)	1,197
Recoveries of (adjustments to) prior years' grants in lieu of municipal taxes (Note 8 (a))	7,514	(1,392)
Write-down of property and equipment (Note 4)	(26,160)	(1,211)
Net income (loss)	(508)	12,070
Retained earnings, beginning of year	214,540	206,823
	214,032	218,893
Dividend payment to Canada	(3,263)	(4,353)
Retained earnings, end of year	210,769	214,540

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1996 (in thousands of dollars)

	1996	1995
Cash provided by (used for):		
Operations		
Net income (loss)	(508)	12,070
Items not involving cash:		
Depreciation	10,776	11,789
Write-down of fixed assets	26,160	1,211
Other	1,052	180
Changes in non-cash operating working capital	1,078	13,777
	38,558	39,027
Financing		
Long-term loans, net	87,314	42,259
Dividend payment to Canada	(3,263)	(4,353)
Long-term receivables	365	672
	84,416	38,578
Investments		
Additions to property and equipment, net	(97,395)	(39,426)
Increase in cash and investments	25,579	38,179
Cash and investments, beginning of year	57,609	19,430
Cash and investments, end of year	83,188	57,609

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1996 (tabular amounts only are in thousands of dollars)

Local port corporation

The Vancouver Port Corporation was established on July 1, 1983 as a local port corporation pursuant to the *Canada Ports Corporation Act*. The Corporation is exempt from income taxes.

The Corporation's mission is to facilitate and expand the movement of cargo and passengers through the Port of Vancouver, to provide facilities, services and technologies that are competitive, safe, commercially viable, dependable and customer oriented, and to operate with broad public support in the best interests of Canadians.

The national marine transportation system has been and continues to be under review by the Government of Canada. The effect of this review is the proposed implementation in 1997 of a new *Canada Marine Act* superseding the *Canada Ports Corporation Act*. At this time, the impact of these changes on the Corporation is not known.

1. Significant accounting policies

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. A summary of the significant accounting policies of the Corporation is as follows:

(a) Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Canada Place Corporation. All significant intercompany accounts and transactions have been eliminated.

(b) Property and equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis, commencing with the year the asset becomes operational, at rates based on the estimated useful lives of the assets as follows:

Asset	Rate
Dredging	15 to 40 years
Berthing structures, buildings, roads and surfaces	10 to 40 years
Utilities	10 to 33 years
Machinery and equipment	1 to 20 years
Office furniture and equipment	3 to 5 years

VANCOUVER PORT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Continued*

(c) Pension costs

All permanent employees of the Corporation are covered by either the Public Service Superannuation Plan administered by the Government of Canada, or a private group retirement plan. Contributions to the plans are required from the employees and the Corporation. Although both plans are defined benefit plans, the contributions represent the total pension liability of the Corporation and are recognized in the accounts on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account or with respect to charges to the Consolidated Revenue Fund for indexation payments under the *Supplementary Retirement Benefits Act*.

(d) Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are estimated by the Corporation in accordance with the *Municipal Grants Act*. Accruals are re-evaluated each year and changes, if any, are made in the current period's financial statements based on the best available information, including the results of audits by the Municipal Grants Division of Public Works Canada.

(e) Employee benefits

The Corporation accrues estimated liabilities for severance pay and annual leave. These benefits are provided under collective agreements and corporate policy.

(f) Comparative figures

Certain 1995 comparative figures have been reclassified to conform with the presentation adopted in the current year.

2. Investments

Current investments are in Government of Canada treasury bills and in term deposits. At December 31, 1996 and 1995 the market value of these investments approximated carrying value.

3. Long-term receivables

	1996	1995
	$	$
Long-term agreements for sale, bearing interest at 8.525% per annum, receivable in blended annual instalments totalling approximately $1.3 million, maturing between 1998 and 2012, repayable at any time	11,280	12,022
Less current portion (included in accounts receivable)	(357)	(752)
	10,923	11,270
Fire protection costs, net of amortization	1,040	1,120
Other	87	105
	12,050	12,495

4. Property and equipment

	1996			1995
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Land	91,207		91,207	90,823
Dredging	584	313	271	295
Berthing structures	85,564	33,589	51,975	64,542
Buildings	117,225	35,768	81,457	110,575
Utilities	21,677	11,451	10,226	10,820
Roads and surfaces	39,729	29,167	10,562	10,589
Machinery and equipment	33,728	18,455	15,273	16,829
Office furniture and equipment	12,954	9,310	3,644	4,627
Projects under construction	163,118		163,118	58,708
	565,786	138,053	427,733	367,808

In the year ended December 31, 1996, a comprehensive revaluation of certain capital assets of the Corporation's wholly-owned subsidiary, Canada Place Corporation, was undertaken. As a result, the carrying amount of the building was written down by $26,160,000 to its net recoverable amount based on projected undiscounted future net cash flows.

5. Long-term loans

	1996	1995
	$	$
Unsecured loan from Canada, bearing interest at 7.5%, repayable in blended annual instalments, maturing December 31, 2000	1,710	2,065
Unsecured loan from Export Development Corporation, bearing interest at 8.525%, repayable in quarterly instalments, amortized over 15 years, maturing May 31, 2005	42,614	44,239
Unsecured loan from Export Development Corporation, bearing interest at 8.345%, repayable in quarterly instalments, amortized over 15 years, maturing May 31, 2006	41,671	
Unsecured loan from Export Development Corporation, bearing interest at 6.538%, repayable in quarterly instalments, amortized over 15 years, maturing November 28, 2006	51,600	
	137,595	46,304
Less current portion (included in accounts payable)	(5,957)	(1,980)
	131,638	44,324

VANCOUVER PORT CORPORATION—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1996—*Concluded*

Principal repayment requirements over the next five years are as follows:

	$
1997	5,957
1998	6,344
1999	6,832
2000	7,359
2001	7,416
	33,908

6. Related party transactions

In addition to the related party transactions described elsewhere in these consolidated financial statements, the Corporation paid $1,221,544 (1995—$1,546,955) to Canada Ports Corporation for its share of that corporation's operating expenses.

7. Commitments

Contractual obligations for the construction, purchase and lease of property and equipment as at December 31, 1996 are estimated at $46.2 million.

It is the policy of all port corporations that each port corporation pay a dividend to Canada not later than March 31 based on a Corporation's prior year's income. Dividends are recorded by the Corporation as a liability when declared.

8. Contingencies

(a) At December 31, 1996 the Corporation had claims from certain Lower Mainland municipalities for grants in lieu of taxes of approximately $10.1 million (1995—$12.9 million) greater than the amount accrued in the financial statements. Management is confident that the claims by municipalities not accrued in the financial statements will not result in additional cost to the Corporation.

During 1996 the Municipal Grants Division of Public Works Canada completed audits at certain municipalities. As a result of the 1996 audits, the Corporation has expensed in prior years a total of $7.8 million for grants in lieu of taxes more than was required. This year's audits and other information have indicated additional overaccruals in prior years totaling approximately $4.9 million. At December 31, 1996, the potential benefit from $5.2 million (1995—$1.6 million) for overpayments of grants in lieu of taxes in prior years has not been recorded in the financial statements due to uncertainty.

(b) There are claims against the Corporation for approximately $5.0 million plus unspecified damages. In management's opinion, the likelihood of these claims succeeding is not determinable. The effect, if any, of the ultimate resolution of these matters will be accounted for in the accounts of the year a liability is estimable.

9. Financial instruments

The carrying value of current assets and current liabilities approximates their fair value due to the relatively short period to maturity of these financial instruments.

At December 31, 1996, the fair value of other financial assets and financial liabilities in the consolidated balance sheet is as follows:

	1996		1995	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Long-term receivable	12,407	12,407	13,247	13,133
Long-term loans	137,595	145,214	46,304	47,683

The fair values of the Corporation's long-term receivables and long-term loans are determined using cash flows discounted at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

VIA RAIL CANADA INC.

MANAGEMENT REPORT

Management of the Corporation is responsible for the preparation and integrity of the financial statements contained in the Annual Report. These statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements. Management considers that the statements present fairly the financial position of the Corporation, the results of its operations and the changes in its financial position.

To fulfill its responsibility, the Corporation maintains systems of internal accounting controls, policies and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems are subject to periodic reviews by Samson Bélair Deloitte & Touche, general partnership as internal auditors. The external auditors, the Auditor General of Canada and Raymond, Chabot, Martin, Paré, general partnership have audited the Corporation's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

The Audit Committee of the Board of Directors, consisting solely of outside Directors, meets periodically with the internal and external auditors and with management, to review the scope of their audits and to assess reports on audit work performed. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

T. W. Ivany
President and Chief Executive Officer

J. R. Paquette
Vice-President, Planning and Finance, and Treasurer

AUDITORS' REPORT

TO THE MINISTER OF TRANSPORT

We have audited the balance sheet of VIA Rail Canada Inc., as at December 31, 1996 and the statements of operations, reconciliation to operating funding from the Government of Canada, contributed surplus, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

Raymond, Chabot, Martin, Paré
General partnership
Chartered Accountants

Montreal, Canada

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 14, 1997

VIA RAIL CANADA INC.—*Continued*

BALANCE SHEET AS AT DECEMBER 31
(in thousands of dollars)

ASSETS	1996	1995
Current assets		
Cash and term deposits	16,864	9,256
Accounts receivable	8,064	7,953
Receivable from the Government of Canada	56,027	83,335
Materials	17,145	18,730
	98,100	119,274
Long-term assets		
Asset renewal fund (Note 3)	35,058	23,072
Investment, at cost (Note 4)		2,001
Properties (Note 5)	579,359	640,984
	614,417	666,057
	712,517	785,331

LIABILITIES	1996	1995
Current liabilities		
Accounts payable and accrued liabilities	79,811	107,119
Deferred revenue	4,975	5,131
	84,786	112,250
Long-term liabilities		
Network restructuring and reorganization charges (Note 6)	28,160	22,740
Other	8,543	9,888
	36,703	32,628
Shareholder's equity		
Share capital (Note 7)	9,300	9,300
Contributed surplus	626,906	683,064
Deficit	(45,178)	(51,911)
	591,028	640,453
	712,517	785,331

See accompanying notes to financial statements.

Signed on behalf of the Board:

HUGH K. SMITH, Q.C.
Director and Chairman of the Audit Committee

MARC LEFRANÇOIS
Director and Chairman of the Board

VIA RAIL CANADA INC.—*Continued*

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1996	1995
Revenue		
Passenger	167,911	163,403
Other (Note 4)	16,623	11,571
	184,534	174,974
Expenses		
Customer services	227,494	229,471
Equipment maintenance	92,847	98,734
Marketing and sales	26,933	25,390
Support services	31,565	36,142
General and administrative	9,920	7,256
Reorganization charges (Note 6)	2,508	20,412
Income and capital taxes	1,537	917
	392,804	418,322
	208,270	243,348
Operating funding from the Government of Canada	224,520	255,779
Results before items not requiring operating funding from the Government of Canada	16,250	12,431
Amortization	42,566	38,509
Write-down of properties (Note 5)	33,766	
Reorganization charges to be funded in subsequent years (Note 6)	10,015	
Net results	(70,097)	(26,078)

See accompanying notes to financial statements.

STATEMENT OF RECONCILIATION TO OPERATING FUNDING FROM THE GOVERNMENT OF CANADA
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1996	1995
Net results	(70,097)	(26,078)
Items not requiring (providing) operating funds		
Amortization and gains on properties	43,064	39,123
Write-down of properties	33,766	
Reorganization charges to be funded in subsequent years	10,015	
Network restructuring and reorganization charges recovery	(16,737)	(13,023)
	70,108	26,100
Operating funding surplus for the year	11	22

See accompanying notes to financial statements.

STATEMENT OF CONTRIBUTED SURPLUS
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1996	1995
Balance at beginning of year	683,064	682,559
Capital funding from the Government of Canada	20,672	39,628
Transfer to deficit		
Non-cash transactions on properties (1994—$50,169)	(76,830)	(39,123)
Balance, end of year	626,906	683,064

See accompanying notes to financial statements.

STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1996	1995
Balance, beginning of year	51,911	64,956
Net results	70,097	26,078
Transfer from contributed surplus		
Non-cash transactions on properties (1994—$50,169)	(76,830)	(39,123)
Balance, end of year	45,178	51,911

See accompanying notes to financial statements.

VIA RAIL CANADA INC.—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1996	1995
Cash provided by (used in) operating activities		
Net results	(70,097)	(26,078)
Non-cash charges (credits) to operations		
Amortization of properties	43,790	41,411
Gains on write-off, retirement and disposal of properties	(726)	(2,288)
Amortization of investment tax credits	(498)	(614)
Write-down of properties	33,766	
Gains on sales of investment	(6,856)	
Changes in non-cash working capital	(6,219)	9,332
Network restructuring and reorganization charges	5,420	(25,346)
Other long-term liabilities	(847)	2,163
	(2,267)	(1,420)
Cash provided by (used in) financing activities		
Capital funding from the Government of Canada	20,672	39,628
Receivable from the Government of Canada	20,828	(12,376)
	41,500	27,252
Cash provided by (used in) investment activities		
Asset renewal fund	(11,986)	(10,554)
Acquisition of properties	(20,672)	(39,628)
Advances on contracts	3,581	12,211
Proceeds from sale of investment	8,857	
Proceeds from sale of properties	1,886	7,482
Accounts payable and accrued liabilities related to properties	(13,291)	5,507
	(31,625)	(24,982)
Cash and term deposits		
Increase during the year	7,608	850
Balance, beginning of year	9,256	8,406
Balance, end of year	16,864	9,256
Represented by		
Cash	259	(3,331)
Term deposits, 3.1%, maturing in January, 1997	16,605	12,587
	16,864	9,256

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996

1. Authority and objectives

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. It was incorporated in 1977 under the *Canada Business Corporations Act*. The Corporation's vision is to be the best passenger transportation company in Canada with a mission to provide high-quality, low-cost passenger service. The Corporation uses the roadway infrastructure of other railway companies, which also assure the control of train operations.

The Corporation is not an agent of Her Majesty, and is subject to the *Income Tax Act* (Canada) and those of certain provinces.

2. Accounting policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles. The significant accounting policies followed by the Corporation are summarized as follows:

(a) Funding from the Government of Canada

Operating funding, which pertains to services, activities and other undertakings of the Corporation for the management and operation of railway passenger services in Canada, is recorded in the statement of operations. The amounts are determined on the basis of operating costs less commercial revenues excluding non-cash transactions relating to properties, certain network restructuring and reorganization charges, and are based on the operating budget approved by the Government of Canada for each year. Operating results are reconciled to operating funding in the statement of reconciliation to operating funding from the Government of Canada.

Funding to cover the costs of the network restructuring and reorganization charges is recorded as a recovery in the statement of operations in the year in which final settlements with or disbursements are made to employees or suppliers.

Funding for capital expenditures is recorded as contributed surplus on an accrual basis.

(b) Materials

Materials are valued at weighted average cost.

(c) Properties

Properties acquired from Canadian National Railway and Canadian Pacific Limited at the start of operations in 1978 were recorded at the net transfer values, while subsequent additions, including those acquired under capital leases, are recorded at cost.

The costs of refurbishing and rebuilding rolling stock and costs associated with other property upgrading are capitalized if they are incurred to improve the service value or extend the useful lives of the properties concerned; otherwise, costs are expensed as incurred.

Retired assets are written down to their realizable value.

VIA RAIL CANADA INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

(d) Amortization of properties

Amortization of properties is calculated on a straight-line basis at rates sufficient to write off the cost of properties, less their residual value, over their estimated useful lives, as follows:

Rolling stock	12 to 29 years
Maintenance buildings	25 years
Stations and facilities	20 years
Infrastructure improvements	5 to 38 years
Leasehold improvements	5 to 20 years
Machinery and equipment	4 to 15 years
Information systems	3 years
Other assets	7 to 10 years

No amortization is provided for projects in progress, advances on contracts in progress or retired assets.

(e) Leases

Properties recorded under capital leases are amortized on a straight-line basis over 20 years, which is representative of their useful lives.

Rental payments under operating leases are expensed as incurred.

(f) Income taxes

Funding from the Government of Canada provided to the Corporation to cover operating costs is determined on the basis of current needs. For this reason, income taxes are accounted for on the taxes payable basis as there is a reasonable expectation that all taxes payable in future years will be included in the government-approved formula for reimbursement and will be recoverable at that time.

(g) Deferred credits

Investment tax credits are amortized over the estimated useful lives of the related properties. The amortization of deferred investment tax credits is recorded as a reduction of the amortization of properties. Lease inducement credits are amortized over the term of the leases.

(h) Pension plans

The Corporation has defined benefit pension plans, based on retirement age, compensation and length of service, covering all its permanent employees.

The cost to the Corporation is determined by actuarial valuations which allocate to each year, the accrued portion of the benefits based on projections of employees' compensation levels to the time of their retirement, prorated on employees' years of service.

Pension expense (Note 9) includes the cost of benefits attributable to services rendered during the current year, the amortization of any unfunded liability in respect of past services and the amortization of experience gains and losses. These amortizations are calculated on a straight-line basis over the expected average remaining service lives of the active employee groups.

(i) Employee termination and special benefits

Employee termination and special benefits provided for under labour agreements and special programmes are expensed in the year in which these costs are incurred.

(j) VIA PRÉFÉRENCE programs

The incremental costs of providing travel awards under the Corporation's VIA PRÉFÉRENCE frequent traveller reward program are accrued as the entitlements to such awards are earned and are included in accounts payable and accrued liabilities.

(k) Financial instruments

Financial instruments consisting of cash and term deposits, accounts receivable, receivable from the Government of Canada, asset renewal fund and accounts payable and accrued liabilities are recorded at carrying value, which is equivalent to fair value.

3. Asset renewal fund

The Corporation has been authorized by the Treasury Board of the Government of Canada to segregate proceeds from the sale or lease of surplus assets as well as the operating savings resulting from the rationalization of its maintenance activities, in a manner which ensures that these funds are retained for future capital projects.

The average rate of return on the banker's acceptance and bearers discount notes is 3.1% with maturity dates in January 1997.

4. Investment

Railroad Association Insurance, Ltd. (R.A.I.L.), an excess liability insurance company in which the Corporation had a 4.61% interest, was sold on October 3, 1996. The proceeds from sale of this investment were $8.9 million, resulting in a realized gain on sale of $6.9 million included in other revenue, with an additional contingent gain of up to $0.5 million depending on past and future paid claims experience to be settled on October 3, 2001.

VIA RAIL CANADA INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Continued*

5. Properties

	1996				1995	
	Cost	Accumulated amortization	Net	Write-down	Cost	Accumulated amortization	Net
	(in millions of dollars)						
Land	3.7		3.7		3.3		3.3
Rolling stock	522.3	211.3	311.0	13.3	529.7	227.5	302.2
Maintenance buildings	159.1	65.6	93.5	7.9	218.3	83.5	134.8
Stations and facilities	27.1	10.0	17.1		27.2	8.7	18.5
Infrastructure improvement	92.7	24.3	68.4	3.9	94.7	23.3	71.4
Leasehold improvements	86.0	49.7	36.3	7.2	86.0	46.0	40.0
Machinery and equipment	25.7	16.6	9.1	1.5	30.7	19.2	11.5
Information systems	76.2	69.8	6.4		72.3	68.0	4.3
Other assets	20.8	19.3	1.5		21.1	18.7	2.4
	1,013.6	466.6	547.0	33.8	1,083.3	494.9	588.4
Projects in progress			9.5				45.3
Advances on contracts in progress			1.2				4.8
Retired assets (at realizable value)			21.7				2.5
			579.4				641.0

On December 31, 1996, the gross value of assets under capital leases included above was $5.8 million (1995—$5.9 million) and related accumulated amortization thereon, amounted to $4.1 million (1995—$3.9 million).

Projects in progress primarily consist of station improvements and equipment.

The Corporation retired 20 LRC locomotives as they became surplus to the long-term fleet plan requirements.

The Halifax and Toronto Maintenance Centres were written-down to their estimated market value as a result of the decision to rationalize the Maintenance Centre network.

6. Network restructuring and reorganization charges

The Corporation has incurred expenses related to approved plans for the restructuring of its transportation network on October 4, 1989 as well as subsequent reorganizations.

As at December 31, 1996 a provision of $43.3 million (1995—$55.7 million), of which $28.2 million (1995—$22.7 million) is reflected as a long-term liability, has been recorded to provide for the ongoing costs of severance payments and employment security benefits governed by labour agreements, special programmes and arbitration decisions which may extend over several years.

7. Share capital

The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at December 31, 1996 and 1995, 93,000 shares at $100 per share are issued and fully-paid.

VIA RAIL CANADA INC.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1996—*Concluded*

8. Commitments

(a) The future minimum payments relating to operating leases mainly for real estate computer equipment are as follows:

	(in millions of dollars)
1997	12.9
1998	9.5
1999	10.0
2000	11.0
2001	10.0
Subsequent years up to 2034	74.4
	127.8

(b) As at December 31, 1996, the Corporation has outstanding commitments amounting to $5.1 million (1995—$21.6 million) consisting mainly of equipment related projects.

(c) Effective January 1, 1989, the Corporation entered into a train service agreement and other agreements for the use of tracks and control of train operations. These agreements expire December 31, 2008.

9. Pension plans

The latest actuarial valuations of the pension plans were carried out as at December 31, 1993, by external actuaries who are members of the Canadian Institute of Actuaries. Based on these valuations and actuarial projections made for 1994, 1995 and 1996, the accumulated plan benefits as at December 31, 1996 are $830.4 million. The net assets available to provide for these benefits at actuarial adjusted market values as at that date amount to $899.7 million.

Using the method identified in the pension plans accounting policy (Note 2 (h)), the pension expense for 1996 was $5.3 million (1995—$11.3 million) and included amortization of past service costs and experience gains and losses.

10. Related party transactions

In the normal course of business, transactions with other Crown corporations amounted to:

	1996	1995
	(in millions of dollars)	
Revenue	0.9	8.6
Operating expenses	1.2	62.3
Capital expenditures		24.5

In addition to these related party transactions and those disclosed elsewhere in the financial statements, the Corporation is related in terms of common ownership to all Government of Canada created departments and agencies. The Corporation enters into transactions with these entities in the normal course of business on trade terms applicable to all individuals and enterprises.

In 1996, the Government of Canada transferred thirty-one (31) station sites to the Corporation at their aggregate carrying value of one dollar.

11. Contingencies

In the ordinary course of business, various claims and lawsuits have been brought against the Corporation and it is the opinion of management that the settlement of these actions will not result in any material liabilities to the Corporation beyond any amounts already provided.

12. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in 1996.

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